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S. Hrg. 99-291

PATENT AND TRADEMARK OFFICE AUTHORIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
PATENTS, COPYRIGHTS AND TRADEMARKS

OF THE

COMMITTEE ON THE JUDICIARY
UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

ON

S. 866

A BILL TO AUTHORIZE APPROPRIATIONS FOR THE PATENT AND TRADEMARK OFFICE IN THE DEPARTMENT OF COMMERCE

JULY 23, 1985

Serial No. J-99-41

Printed for the use of the Committee on the Judiciary

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S521-12

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PATENT AND TRADEMARK OFFICE AUTHORIZATION

TUESDAY, JULY 23, 1985

U.S. SENATE,
SUBCOMMITTEE ON PATENTS,
COPYRIGHTS AND TRADEMARKS,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room SD-562, Dirksen Senate Office Building, Hon. Charles McC. Mathias, Jr. (chairman of the subcommittee), presiding.

Present: Senator Leahy.

Staff present: Steve Metalitz, staff director; Ralph Oman, chief counsel; John Podesta, minority chief counsel; Randolph Collins and Sharon Donovan, professional staff; Pamela Batstone, chief clerk; and Beverly McKittrick, counsel for Senator Laxalt.

OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT

Senator LEAHY [presiding]. Good morning. Senator Mathias is on his way and has asked that I open this meeting, and I am glad to do so.

I have a statement which I will give before we go to the distinguished list of witnesses, who will be led off with Congressman Moorhead.

The encouragement of invention and innovation has always been a vital part of our free enterprise system, and has been in no small part responsible for the rise of the United States as the premier economic force in the world.

I think one key to what might be called our ingenuity is the system of patents by which those persons who do invent or innovate are ensured that they reap the benefits of their hard work and creativity. That was true when the framers of the Constitution acknowledged the need for a viable patent system. It was true when Abraham Lincoln said that this incentive to inventors adds the fuel of interest to the fire of genius. And it is still true today.

Perhaps it is even more important today as technical innovations in modern laboratories and workshops become the economic lifeblood of entire new industries of tomorrow. We only need to look around to see the tremendous importance of innovation in today's highly competitive and technology-based business environment. Through that, we appreciate the importance of a viable patent and trademark system.

And if that system breaks down and fails to provide the protection to innovators for their efforts, the incentive to create is diminished.

Today, the United States cannot afford to lose any of its competitive edge in the high-technology industries that are dependent on the innovative new products and processes. We cannot afford any breakdown of our patent and trademark systems.

Right now, we have some trouble with our system. The Patent and Trademark Office is in the process of revamping its recordkeeping system. It is going from a shoebox type of information storage that has been used for 160 years to an automated system, allowing for rapid access to the Office's records.

Now, that sort of systematic change has never been easy, but the Patent Office has encountered more than the usual amount of problems, and a recent report by the GAO points out several instances of poor management within the Patent Office in its program to automate. Among other things, the GAO has found the Patent Office failed to identify the basic needs of the users of the system; they accepted terminal equipment that did not meet its requirement, and replaced that equipment with other equipment which in itself was deficient. They improperly used exchange agreements to circumvent Federal procurement regulations; they negotiated terms of exchange agreements that restricted the Office's control over its own resources, restricted public access to trademark information, and would have resulted in higher fees being charged to the public, and then they accepted an automated search system without fully testing it, and that resulted in a system that is no better than the manual system it replaced.

The House has already passed legislation that would alter the funding structure of the PTO so that this automation program is funded by the Office's appropriation rather than from user-fee income. I think this is going to give the Congress better oversight of this important project. It should serve to prevent future abuses of the type that I just noted.

I am generally in agreement with the other body on this matter, and I believe that the Patent Office should be closely watched in its effort to automate and to provide continued public access to its records, especially in light of its serious mistakes in managing the program already.

But I am also concerned about the consequences of the House restrictions on the PTO's use of available funds, if the administration prevails in its effort to keep the 1986 funding for the Office at the $84.7 million level, rather than to provide the $101.6 million level the House bill seeks. If that result occurs, in all fairness to the Patent Office, it gets caught in the middle. Not only would it be short of funds for the proper fulfillment of its basic services, but it might also be unable to divert user-fee funds into the automation project. With the great need for that project and the efficiency it should add to the Office, such a result could be detrimental to the basic purpose for which the PTO exists—that of instilling confidence in users of the PTO that they have an effective system to protect the results of their innovation.

[A copy of S. 866 follows:]

99TH CONGRESS
1ST SESSION

S. 866

To authorize appropriations for the Patent and Trademark Office in the Department of Commerce.

IN THE SENATE OF THE UNITED STATES

APRIL 3 (legislative day, FEBRUARY 18), 1985

Mr. MATHIAS (for himself and Mr. THURMOND) (by request) introduced the following bill; which was read twice and referred to the Committee on the Judiciary

---

A BILL

To authorize appropriations for the Patent and Trademark Office in the Department of Commerce.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there are authorized to be appropriated for the payment of salaries and necessary expenses of the Patent and Trademark Office to become available for fiscal year 1986, $84,739,000, and in fiscal years 1987 and 1988 such sums as may be necessary as well as such additional or supplemental amounts as may be necessary, for increases in salary, pay, retirement, or other employee benefits authorized by law. Funds available under this Act shall be used to reduce by 50 per centum the payment of fees under section 41 (a) and (b) of title 35, United States Code, by independent inventors and nonprofit organizations as defined in regulations established by the Commissioner of Patents and Trademarks, and by small business concerns as defined in section 3 of the Small Business Act and any subsequent legislation amending that section or transferring responsibilities under that section and by regulations established by the Small Business Administration or its successor. When so specified and to the extent provided in an appropriation Act, any amount appropriated pursuant to this Act and, in addition, such fees as shall be collected pursuant to title 35, United States Code, and the Trademark Act of 1946, as amended (15 U.S.C. 1051 et seq.), may remain available without fiscal year limitation.

Senator **Leahy**. We call as our first witness the Honorable Carlos J. Moorhead, U.S. House of Representatives.

Congressman, we are delighted to have you with us before the committee.

Mr. **Moorhead**. It is nice to be with you.

STATEMENT OF HON. CARLOS J. MOORHEAD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Moorhead**. Mr. Chairman, thank you for this opportunity to appear before your subcommittee. With your permission, I would like my entire statement included in the hearing record, along with a copy of our subcommittee report on the House-passed H.R. 2434.

Senator **Leahy**. Without objection.

Mr. **Moorhead**. The bill before you as it passed the House has a wide base of support. It has the unanimous support of the House Judiciary Committee. It passed the House on the suspension calendar June 14, 1985, without a dissenting vote. It also has the unanimous support of those people who use the Patent Office as represented by the American Intellectual Property Law Association, the Intellectual Property Owners, Inc., and the U.S. Trademark Association. The opposition to the House-passed bill comes from OMB and the Patent and Trademark Office.

Our concern for the Patent and Trademark Office goes back a number of years. I remember quite vividly the shape we found that Office in 1980—5 to 25 percent of any given search file was missing, and it is the search file which determines the strength of your patent; the Department of Commerce had cut the budget of the PTO in fiscal years 1976, 1977, and 1978; in 1980, the PTO's 22-million document search file was increasing by 750,000 a year, and maintained as it was in 1836, in so-called "shoeboxes," with no automation whatsoever and no plans for such.

The House Judiciary Committee was so disgusted with the Department of Commerce's neglect of that Office that, in 1980, we voted to separate the Patent Office from the Department of Commerce. That did not occur in the final version, but we did get the attention of the Department of Commerce, and they agreed to support an amendment we drafted making the Commissioner of Patents an Assistant Secretary of Commerce with the hope that their needs and requests would be given more attention. This worked very well for the last 4 years. Then, this year, unknown to us, we were advised that OMB decided to cut PTO's 1985 appropriation by $16.9 million. They justified this reduction by saying that the PTO collected more user fees than it had planned, and therefore its appropriations should be cut accordingly.

There are two problems with this. There were no excess user fees collected because when the Director of OMB put a hold on the $16 million for this year, the PTO announced a whole list of cutbacks it had to undergo as a result of OMB holding up the $16.9 million. For a list of those cuts, page 4 of our report lists them all.

The second problem with holding up the $16.9 million in user fees is that money came from users, not the taxpayer. When the Congress strongly supported the administration's legislation in

1982, to substantially increase user fees, we made a promise to the American inventor, and that is, if he or she would go along with the increase in user fees, we, the Congress, would try to provide a first-class Patent and Trademark Office.

Instead of a first-class office, what we are giving him—after we increased his fees substantially—is a cut in services. This is not what we should do, and this is not what the House-passed bill does.

H.R. 2434 would retain the same level of funding as in fiscal year 1985. In other words, H.R. 2434 freezes the authorized level of appropriations for the PTO for 1986 at $101.6 million. This is not the time for this country to reduce its commitment to U.S. innovation.

In addition to adding $16.9 million higher than the amount recommended by the administration, I amended the bill to freeze trademark fees except for adjustments to reflect fluctuations during the previous 3 years in the Consumer Price Index.

Presently, there are no restrictions on increasing trademark fees that now exist on patent fees. My amendment placed the same restriction on trademark fees that now exist on patent fees. Our trademark system is presently funded in its entirety by user fees; no tax dollars are involved. A trademark application fee is now $175. Three years ago, before the 1982 increase, it was $35, which was set in 1965.

There is one category of patent fees which are not restricted—the 41(D) fees, which are the so-called miscellaneous goods and services fees which can be raised every year. My amendment, which was accepted by the House Judiciary Committee, would also bring these fees in line with other patent fees—that is, they can only be raised after 3 years, and then only to reflect fluctuations during the previous 3 years in the Consumer Price Index.

A third amendment of mine, which was accepted by the House Judiciary Committee, would have the effect of precluding the Patent and Trademark Office from imposing any fee for the use of the Patent or Trademark Search Libraries.

The Patent and Trademark Office has maintained public patent and trademark search rooms since the last century. There has never been a cost required for the use of either room. These search rooms contain public records, assembled at public expense, to which the public needs access. Eighty percent of all technology disclosed in patent literature is published nowhere else.

The deal which we call a patent is to encourage the inventor to disclose the invention to the Government and not keep it secret, and the Government will in return give the inventor 17 years of exclusivity. It is these libraries where the inventor goes to determine whether he or she has in fact built a better mousetrap.

The PTO is presently planning to institute fees of $40 to $70 an hour, with regard to the use of the trademark search room, and a fee not yet determined for the patent search room. If the Office provides access through terminals in the search rooms to data bases not owned by the Office, the Office is authorized to collect a fee and pass it on to the owner. This section does not prohibit charging the public for copies of records or charging for an entirely new service not provided.

There were two other amendments offered by the gentleman from Texas, Jack Brooks, which were accepted by our committee.

An explanation of those amendments can be found on page 7 of our report. They are aimed at correcting a couple of problems pointed out to us by the Comptroller General's report on the automation of the trademark operations. Because the PTO was acquiring data bases by exchange agreements rather than by purchase, they felt they did not have to comply with the Brooks Act relating to certain procurement procedure. The effect of these amendments will be to insure that the appropriation mechanism, rather than either user fees or exchange agreements, will be relied upon for the procuring of any automatic data processing resources by the Patent and Trademark Office during the next 3 years.

Mr. Chairman, in conclusion let me say that on the House side, we are very concerned with what is going on at the Patent Office. The Patent Office was one of the first agencies created by the Congress. A system of registration was set up back in 1790. An examination system and office was set up in 1836. This country was built on innovation and invention. A system of patents is only as good as the office that grants and administers it.

We have turned the corner. Pendency is down to 24 months and is expected to be down to 18 months in 1987. The quality of patents will be substantially enhanced when the automation system is fully in place in 1990. We must keep on top of this Office if we are going to have the quality of service our inventors deserve. The future of our country is in the creativity of our citizens, and patents play a critical role in the innovation process. I urge you to favorably consider H.R. 2434.

[The prepared statement of Representative Moorhead and the report on H.R. 2434 follow:]

PREPARED STATEMENT OF REPRESENTATIVE CARLOS J. MOORHEAD

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR THIS OPPORTUNITY TO APPEAR BEFORE YOUR SUBCOMMITTEE. WITH YOUR PERMISSION MR. CHAIRMAN I WOULD LIKE MY ENTIRE STATEMENT PRINTED IN THE HEARING RECORD ALONG WITH A COPY OF OUR SUBCOMMITTEE REPORT ON THE HOUSE-PASSED H.R. 2434.

THE BILL BEFORE YOU AS IT PASSED THE HOUSE HAS A WIDE BASE OF SUPPORT. IT HAS THE UNANIMOUS SUPPORT OF THE HOUSE JUDICIARY COMMITTEE. IT PASSED THE HOUSE ON THE SUSPENSION CALENDAR (JUNE 14, 1985) WITHOUT A DISSENTING VOTE. IT ALSO HAS THE UNANIMOUS SUPPORT OF THOSE PEOPLE WHO USE THE PATENT OFFICE AS REPRESENTED BY THE AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION--THE INTELLECTUAL PROPERTY OWNERS, INC. AND THE UNITED STATES TRADEMARK ASSOCIATION. THE OPPOSITION TO THE HOUSE-PASSED BILL COMES FROM OMB AND THE PATENT AND TRADEMARK OFFICE.

OUR CONCERN FOR THE PATENT AND TRADEMARK OFFICE GOES BACK A NUMBER OF YEARS. I REMEMBER QUITE VIVIDLY, THE SHAPE WE FOUND THAT OFFICE IN 1980--

--5 TO 25 PERCENT OF ANY GIVEN SEARCH FILE WAS MISSING--
AND IT'S THE SEARCH FILE WHICH DETERMINES THE STRENGTH
OF YOUR PATENT;

--THE DEPARTMENT OF COMMERCE HAD CUT THE BUDGET OF THE PTO
IN FY 1976-77-78;

--IN 1980, THE PTO'S 22 MILLION DOCUMENT SEARCH FILE WAS
INCREASING BY 750,000 A YEAR AND MAINTAINED AS IT WAS IN
1836, IN SO-CALLED SHOE-BOXES--WITH NO AUTOMATION WHATSOEVER AND NO PLANS FOR SUCH--

THE HOUSE JUDICIARY COMMITTEE WAS SO DISGUSTED WITH THE DEPARTMENT OF COMMERCE'S NEGLECT OF THAT OFFICE THAT IN 1980 WE VOTED TO SEPARATE THE PATENT OFFICE FROM THE DEPARTMENT OF COMMERCE. THAT DID NOT OCCUR IN THE FINAL VERSION BUT WE DID

GET THE ATTENTION OF THE DEPARTMENT OF COMMERCE AND THEY AGREED TO SUPPORT AN AMENDMENT WE DRAFTED MAKING THE COMMISSIONER OF PATENTS AN ASSISTANT SECRETARY OF COMMERCE WITH THE HOPE THAT THEIR NEEDS AND REQUESTS WOULD BE GIVEN MORE ATTENTION.
THIS WORKED VERY WELL FOR THE LAST FOUR YEARS. THEN THIS YEAR UNKNOWN TO US WE WERE ADVISED THAT OMB DECIDED TO CUT PTO'S 1985 APPROPRIATION BY $16.9 MILLION DOLLARS. THEY JUSTIFIED THIS REDUCTION BY SAYING THAT THE PTO COLLECTED MORE USER FEES THAN IT HAD PLANNED THEREFORE ITS APPROPRIATIONS SHOULD BE CUT ACCORDINGLY--THERE ARE TWO PROBLEMS WITH THIS--THERE WAS NO EXCESS USER FEES COLLECTED BECAUSE WHEN THE DIRECTOR OF OMB PUT A HOLD ON THE $16 MILLION DOLLARS FOR THIS YEAR THE PTO ANNOUNCED A WHOLE LIST OF CUTBACKS IT HAD TO UNDERGO AS A RESULT OF OMB HOLDING UP THE 16.9 MILLION DOLLARS. FOR A LIST OF THOSE CUTS PLEASE SEE PAGE 4 OF OUR REPORT--
THE SECOND PROBLEM WITH HOLDING UP THE $16.9 MILLION IN USER FEES IS THAT MONEY CAME FROM USERS, NOT THE TAXPAYER. WHEN THE CONGRESS STRONGLY SUPPORTED THE ADMINISTRATION'S LEGISLATION IN 1982, TO SUBSTANTIALLY INCREASE USER FEES, WE MADE A PROMISE TO THE AMERICAN INVENTOR, AND THAT IS, IF HE OR SHE WOULD GO ALONG WITH THE INCREASE IN USER FEES, WE THE CONGRESS WOULD TRY AND PROVIDE A FIRST CLASS PATENT AND TRADEMARK OFFICE. INSTEAD OF A FIRST CLASS OFFICE, WHAT WE ARE NOW GIVING HIM AFTER WE INCREASED HIS FEES SUBSTANTIALLY, IS A CUT IN SERVICES. THIS IS NOT WHAT WE SHOULD DO AND THIS IS NOT WHAT THE HOUSE-PASSED BILL DOES. H.R. 2434 WOULD RETAIN THE SAME LEVEL OF FUNDING AS IN FISCAL YEAR 1985. IN OTHER WORDS, H.R. 2434 FREEZES THE AUTHORIZED LEVEL OF APPROPRIATIONS FOR THE PTO FOR 1986 AT $101.6 MILLION.
THIS IS NOT THE TIME FOR THIS COUNTRY TO REDUCE ITS COMMITMENT TO U.S. INNOVATION.

IN ADDITION TO ADDING $16.9 MILLION HIGHER THAN THE AMOUNT RECOMMENDED BY THE ADMINISTRATION I AMENDED THE BILL TO FREEZE

TRADEMARK FEES EXCEPT FOR ADJUSTMENTS TO REFLECT FLUCTUATIONS DURING THE PREVIOUS THREE YEARS IN THE CONSUMER PRICE INDEX. PRESENTLY, THERE ARE NO RESTRICTIONS ON INCREASING TRADEMARK FEES THAT NOW EXIST ON PATENT FEES. MY AMENDMENT PLACED THE SAME RESTRICTION ON TRADEMARK FEES THAT NOW EXIST ON PATENT FEES. OUR TRADEMARK SYSTEM IS PRESENTLY FUNDED IN ITS ENTIRETY BY USER FEES -- NO TAX DOLLARS ARE INVOLVED. A TRADEMARK APPLICATION FEE IS NOW $175.00. THREE YEARS AGO BEFORE THE 1982 INCREASE IT WAS $35.00 WHICH WAS SET IN 1965.

THERE IS ONE CATEGORY OF PATENT FEES WHICH ARE NOT RESTRICTED -- THE 41(D) FEES WHICH ARE THE SO-CALLED MISCELLANEOUS GOODS AND SERVICES FEES WHICH CAN BE RAISED EVERY YEAR -- MY AMENDMENT WHICH WAS ACCEPTED BY THE HOUSE JUDICIARY COMMITTEE WOULD ALSO BRING THESE FEES IN LINE WITH OTHER PATENT FEES, THAT IS, THEY CAN ONLY BE RAISED AFTER 3 YEARS AND THEN ONLY TO REFLECT FLUCTUATIONS DURING THE PREVIOUS THREE YEARS IN THE CONSUMER PRICE INDEX.

A THIRD AMENDMENT OF MINE WHIH WAS ACEPTED BY THE HOUSE JUDICIARY COMMITTEE WOULD HAVE THE EFFECT OF PRECLUDING THE PATENT AND TRADEMARK OFFICE FROM IMPOSING ANY FEE FOR THE USE OF THE PATENT OR TRADEMARK SEARCH LIBRARIES.

THE PATENT & TRADEMARK OFFICE HAS MAINTAINED PUBLIC PATENT AND TRADEMARK SEARCH ROOMS SINCE THE LAST CENTURY. THERE HAS NEVER BEEN A COST REQUIRED FOR THE USE OF EITHER ROOM. THESE SEARCH ROOMS CONTAIN PUBLIC RECORDS ASSEMBLED AT PUBLIC EXPENSE TO WHICH THE PUBLIC NEEDS ACCESS. EIGHTY PERCENT OF ALL TECHNOLOGY DISCLOSED IN PATENT LITERATURE IS PUBLISHED NOWHERE ELSE. THE DEAL WHICH WE CALL A PATENT IS TO ENCOURAGE THE INVENTOR TO DISCLOSE THE INVENTION TO THE GOVERNMENT AND NOT KEEP IT SECRET AND THE GOVERNMENT WILL IN RETURN GIVE THE INVENTOR 17 YEARS OF EXCLUSIVITY. IT IS THESE LIBRARIES WHERE THE INVENTOR GOES TO DETERMINE WHETHER HE OR SHE HAS IN FACT BUILT A BETTER MOUSETRAP. THE PTO IS presently planning to institute fees of $40 to $70 an hour, with regard to the use of the trademark search room and a fee not yet determined for the patent search room. If the Office provides access through terminals in the search rooms to data bases not owned by the Office, the Office is authorized to collect a fee and pass it on to the owner. This section does not prohibit charging the public for copies of records or charging for an entirely new service not now provided.

There were two other amendments offered by the Gentleman from Texas (Jack Brooks) which were accepted by our Committee. An explanation of those amendments can be found on page seven of our report. They are aimed at correcting a couple of problems pointed out to us by the Comptroller General's report on the automation of the trademark operations. Because the PTO was acquiring data bases by exchange agreement rather than by purchase, they felt they did not have to comply with the Brooks Act relating to certain procurement procedure. The effect of these amendments will be to insure that the appropriation mechanism, rather than either user fees or exchange agreements, will be relied upon for the procuring of any automatic data processing resources by the Patent and Trademark Office during the next 3 years.

Mr. Chairman, in conclusion let me say that on the House side we are very concerned with what's going on at the Patent Office. The Patent Office was one of the first agencies created by Congress. A system of registration was set-up back in 1790. An examinations system and office was set up in 1836. This country was built on innovation and invention. A system of patents is only as good as the Office that grants and administers it.

We have turned the corner. Pendency is down to 24 months and is expected to be down to 18 months in 1987. The quality of patents will be substantially enhanced when the automation

SYSTEM IS FULLY IN PLACE IN 1990. WE MUST KEEP ON TOP OF THIS OFFICE IF WE ARE GOING TO HAVE THE QUALITY OF SERVICE OUR INVENTORS DESERVE. THE FUTURE OF OUR COUNTRY IS IN THE CREATIVITY OF OUR CITIZENS AND PATENTS PLAY A CRITICAL ROLE IN THE INNOVATION PROCESS. I URGE YOU TO FAVORABLY CONSIDER H.R. 2434.

99TH CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPORT
99-104

PATENT AND TRADEMARK AUTHORIZATIONS

MAY 15, 1985.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

---

Mr. KASTENMEIER, from the Committee on the Judiciary, submitted the following

REPORT

[To accompany H.R. 2434]

The Committee on the Judiciary, to whom was referred the bill (H.R. 2434) to authorize appropriations for the Patent and Trademark Office in the Department of Commerce, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. AUTHORIZATION OF APPROPRIATIONS.

(a) PURPOSES AND AMOUNTS.—There are authorized to be appropriated to the Patent and Trademark Office—

(1) for salaries and necessary expenses, $101,631,000 for fiscal year 1986, $110,400,000 for fiscal year 1987, and $111,900,000 for fiscal year 1988; and

(2) such additional amounts as may be necessary for each such fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

(b) REDUCTION OF PATENT FEES.—Amounts appropriated under subsection (a)(1) shall be used to reduce by 50 percent each fee paid under section 41(a) or 41(b) of title 35, United States Code, by—

(1) an independent inventor or nonprofit organization as defined in regulations prescribed by the Commissioner of Patents and Trademarks, or

(2) a small business concern as defined under section 3 of the Small Business Act (15 U.S.C. 632).

SEC. 2. APPROPRIATIONS AUTHORIZED TO BE CARRIED OVER.

Amounts appropriated under this Act and such fees as may be collected under title 35, United States Code, and the Trademark Act of 1946 (15 U.S.C. 1051 and following) may remain available until expended.

SEC. 3. INCREASES OF TRADEMARK AND CERTAIN PATENT FEES PROHIBITED.

(a) TRADEMARK FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years.

(b) PATENT FEES.—The Commissioner of Patents and Trademarks may not, during fiscal years 1986, 1987, and 1988, increase fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments as described in section 41(f) of such title. The Commissioner also may not establish additional fees under such section during such fiscal years.

SEC. 4. FEES FOR USE OF SEARCH ROOMS AND LIBRARIES PROHIBITED.

The Commissioner of Patents and Trademarks may not impose a fee for use of public patent or trademark search rooms and libraries. The costs of such rooms and libraries shall come from amounts appropriated by Congress.

SEC. 5. USE OF PATENT AND TRADEMARK FEES PROHIBITED FOR PROCUREMENT OF AUTOMATIC DATA PROCESSING RESOURCES.

Fees collected under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) and section 41 of title 35, United States Code, may not be used during fiscal years 1986, 1987, and 1988 to procure by purchase, lease, transfer, or otherwise automatic data processing resources (including hardware, software and related services, and machine readable data) for the Patent and Trademark Office.

SEC. 6. USE OF EXCHANGE AGREEMENTS RELATING TO AUTOMATIC DATA PROCESSING RESOURCES PROHIBITED.

The Commissioner of Patents and Trademarks may not exchange items or services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data) during fiscal years 1986, 1987, and 1988. This section shall not apply to any agreement relating to data for automation programs entered into with a foreign government or with a bilateral or international intergovernmental organization.

PURPOSE OF THE LEGISLATION

The purpose of H.R. 2434 is to authorize appropriations for the Patent and Trademark Office in the Department of Commerce for fiscal years 1986 through 1988.

BACKGROUND

Reliable patent and trademark protection for inventors and businesses can provide important incentives for technological progress and investment. When President Reagan signed Public Law 98-622, he said "the stimulation of American inventive genius requires a patent system that offers our inventors prompt and effective protection for their inventions." The recent report of the President's Commission on Industrial Competitiveness noted, "Since technological innovation requires large investments of both time and money, the protection of our intellectual property is another task we should place on our competitive agenda."

The 1979 report by the Advisory Committee on Industrial Innovation of the Carter Administration's domestic policy review stated:

> In general, the patent system has served the country well. Major overhaul of the patent system is not recommended. Nevertheless, some modification to the system could have a beneficial effect on innovation. . . . When proper consideration is given to these problems as they relate to those independent inventors and small businesses whose success—and indeed very existence—depends upon

the innovation process, it becomes clear that some changes must occur.

The Committee on the Judiciary for several Congresses has been engaged in an effort to improve the effectiveness of the U.S. patent and trademark systems. Laws on this topic which have been enacted include: Public Law 96-517, which established a new system for reexamining patents in the Patent and Trademark Office and authorized the Office to establish user fees administratively; Public Law 97-164, which established the Court of Appeals for the Federal Circuit and gave that court exclusive appellate jurisdiction in patent cases; Public Law 97-247, which authorized appropriations for the Patent and Trademark Office for fiscal year 1983 through 1985 and increased user fee income substantially; and Public Law 98-622, which made several changes to clarify and improve patent law and procedure.

An effective Patent and Trademark Office is the cornerstone for reliable patent and trademark protection. Changes in the manner of operating the Office can have as great an impact on the nation's economy as changes in the substantive rules of patent and trademark law. Public Laws 96-517 and 97-247 have resulted in major changes in the Office. User fee income has risen from $28.8 million in 1982 to an estimated $98.6 million 1985. Pursuant to Section 9 of Public Law 96-517, the Commissioner submitted an "Automation Master Plan" in 1982, and began major programs to automate both the patent and the trademark operations. The Office estimated in 1982 that its automation programs will cost at least $719.9 million through 2002.

The Committee is concerned about three separate issues raised by the Patent and Trademark Office authorization: first, the adequacy of the funding for the Patent and Trademark Office; second, the policies being followed by the Office with respect to user fees; and third, the development of an automation plan for the Office.

1. Level of appropriations

H.R. 1628, as introduced, authorized $84,739,000 to be appropriated for the expenses of the Patent and Trademark Office for fiscal year 1986. For fiscal years 1987 and 1988, the bill proposed open-ended authorizations. The $84,739,000 amount was a decrease of $16.9 million from the Office's 1985 appropriations of $101,631,000. The Office's 1986 budget submission explained that the Administration proposes to make up for the reduction in appropriations in 1986 by spending about $16,000,000 in "excess" user fees which have accumulated over the 1983 through 1985 period.

The 1986 budget submission and information provided to the Committee by the Office about cutbacks being made in the Office's 1985 programs have led the Committee to conclude that appropriations should not be reduced from the 1985 level.

The increase in user fees imposed by Public Laws 96-517 and 97-247 was substantial. The Committee envisioned that the revenue raised by the higher fees would be used to make major improvements in the operations of the Patent and Trademark Offices. When the Commissioner of Patents and Trademarks testified before the Subcommittee on Courts, Civil Liberties and the Administration of Justice in March 1982, he clearly stated that ". . . fees received by the Patent and Trademark Office would be available to use directly in improving service to inventors and industry." [1] The Administration's 1986 proposed budget, however, goes in the direction of using fee income to reduce the level of public support for the Office, not to improve the functioning of the Office.

The Committee was provided with information indicating that the Office is planning to reduce various programs by about $5.7 million dollars during 1985 in order to cover the cost of the pay raise received by government employees and other unbudgeted cost increases. The cuts being made by the Office in its 1985 programs include significantly reducing for the rest of 1985 the use of commercially available data bases by patent examiners for searching purposes; eliminating training for examiners; reducing programs for reclassifying the patent file by subject matter and checking file integrity; leaving unfilled the vacant positions at the Board of Patent Appeals; and terminating summer employment programs for students.

Testimony was presented that the Office is not doing enough to improve the quality of patent examining, and indeed may be reducing the level of quality of examining.[2] A survey of patent owners showed that 68 percent of the owners surveyed reported only "moderate" confidence in the validity of patents issued to them by the Patent and Trademark Office. The respondents felt highest priority should be given to improving the quality of patent examining.[3] Former Commissioner Gerald J. Mossinghoff, in a recently published interview, emphasized the need for improvement of the patent search files. He said, "One of the real scandals of the Patent and Trademark Office . . . is that 7 percent of our references that the examiners must look through are either missing or misfiled." [4]

The Committee believes that the paper patent search file cannot be allowed to deteriorate. The paper search file cannot be scrapped instantly when an automated system is completed. Even if the search file is automated by 1990, as planned, improvements are needed to be made in the paper search files in the meantime. If the subject matter classification system for the search file is not continually updated to keep pace with changing technology, the search file will become less effective for finding relevant documents. The patent subject matter clasification system will still be needed when the automated system becomes available.

The Office plans to cut back on legal and scientific periodicals and pamphlets used by patent examiners, even though the budget submission says "periodicals and pamphlets are essential in the patent and trademark examination process." The Office has reduced periodicals and pamphlets by over one-third for 1985 and proposes a similar level of expenditures for 1986.

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[1] See Hearings on Patent and Trademark Office Authorization before the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice, 97th Congress, 2d Sess. (1982) at 12,20.

[2] See Hearings on Patent and Trademark Office Authorization (1985) Before the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice, 99th Cong. 1st Sess. (1985) (statement of Donald W. Banner).

[3] Id.

[4] See 29 BNA's Patent, Trademark and Copyright Journal 490 (March 14, 1985).

The 1986 budget submission also is inadequate to insure timeliness of the services provided by the Office. The estimate in the budget that 107,000 patent applications will be filed in 1986 appears low, considering that over 109,500 were filed in 1984 and the recent trend in filing seems to be upward. The Office reports that the average time required to decide patent appeals is 24 months and will be up to 28 months in 1986. Backlogs of undecided trademark appeals also are at unacceptable levels and rising.

In addition, the Office's proposed 1986 budget makes cuts in administrative services. Administrative services include maintaining official records for inspection by the public, performing the initial clerical screening of the patent and trademark applications, and operating the internal mail and messenger systems. These administrative services have been the subject of public complaints in the past, and no justification is given for reducing the funding for them now.

The Committee accordingly concluded that the level of public support for the Patent and Trademark Office should not be reduced from the current level of $101,631,000. The Committee's conclusions is rooted in the proposition that patents issued by the Patent and Trademark Office must be reliable and the public must have confidence in the validity of patents if the patent system is to meet its objectives.

The Office has been vigorously pursuing the goal of "18 months by '87" in patent examining for the past three years. The Committee fully supports the efforts of the Office to examine patent applicants promptly. However, resources also must be allocated to improving the quality of issued patents. If appropriated, a portion of the $16.9 million support which the Committee has added to the authorization for 1986 should go toward improving the quality of patent examining. Improving the integrity of the search library is very important. The backlog of patent appeals is unacceptable large and growing larger. Immediate action should be taken to improve this situation.

In addition to holding the authorized level of public support for the Patent and Trademark Office for 1986 at the 1985 level of $101,631,000, the Committee is authorizing appropriations for the Office of $110,400,000 for fiscal year 1987 and $111,900,000 for fiscal year 1988. These amounts represent the appropriation levels which, together with fee income for those years, are needed to achieve program levels planned for the Office.[5] These figures reflect a calculation of the estimated program level provided to the Committee by the Department of Commerce minus estimated user fees for the fiscal year in question.

2. *User fee policies*

It is appropriate for the Committee to confirm and clarify the limitations on charging of user fees that were envisioned at the time of enactment of Public laws 96-517 and 97-247. In the House Report on Public law 96-517 [6] the Committee endorsed the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the Patent and Trademark Office by payment of fees. However, the Report envisioned certain limitations on the authority of the Commissioner to charge fees and use those fees for funding Office programs. The Committee recognized that it is not in the public interest to discourage the use of the patent and trademark laws by allowing the fees to rise to too high a level.

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[5] See "Commerce Budget in Brief" for fiscal year 1986 at 53.

[6] See H.REP. No. 96-1307, Part 1, 96th Cong., 2d Sess. (1980), reprinted in [1980] U.S. CODE CONG. & ADM. NEWS 6460.

The Report identified three categories of Patent and Trademark Office costs: (1) costs which should be paid for entirely from appropriated funds; (2) costs which should be paid partly from appropriated funds and partly by user fees; and (3) costs which should be paid for 100 percent by user fees.

The Report noted that certain costs of operating the Office confer no direct benefit on applicants, but rather go to meet the responsibility of the Federal Government to have a Patent and Trademark Office in order to execute the law. The report gave the following examples of costs which should be paid for by appropriated funds:

> For example, the cost of executive direction and administration of the Office, including the Office of the Commissioner and certain agency offices involved with public information, legislation, international affairs and technology assessment. Maintaining the public search room confers a general public benefit, as does the maintenance of the patent files in depository libraries. The contribution to the World Intellectual Property Organization relative to the Patent Cooperation Treaty is a treaty obligation. These costs should be paid for entirely from appropriated funds.[7]

Public law 96-517 required that the costs of "actual processing" of patent and trademark applications were to be paid 50 percent from appropriated funds and 50 percent from user fees. Subsequently, in Public law 97-247, the committee enacted higher fees for application processing. The purpose of the higher fees was said to be "to double current fees as the means of making up for the difference between a lower level of taxpayer support and an increased total budget." [8] The rate of recovery of patent application processing costs from fees, however, was not to reach 100 percent until the mid 1990's, when patent maintenance fees will be fully in effect.[9]

Questions have arisen about using fee income to support the patent and trademark search rooms and libraries. These are the public search facilities located at the Patent and Trademark Office in Arlington, Virginia.

The public patent and trademark search rooms and libraries are to be wholly supported by appropriated funds. The Committee never has explicitly authorized user fees to be charged for access to or use of these rooms and libraries. The Committee intends that policy—which is in effect at this time—to continue.

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[7] Id at 6467.

[8] See H.REP. No. 97-542, 97th Cong., 2d Sess. (1982) at 2.

[9] In Public laws 96-517 and 97-247, Congress for the first time established a system of patent maintenance fees. These fees, charged for maintaining a patent in force, apply only to patents issued after the effective date of the new laws.

The search libraries are used by many other members of the public besides patent and trademark applicants. Making official government records available for inspection by the public is one of the most basic functions of government. Having patent and trademark records freely available to the public and widely disseminated gives a valuable benefit to the public at large. As regards patents, such access also stimulates scientific inquiry and research by providing access to inventive materials. In the context of trademark, access makes it possible for constructive notice of proprietary rights to occur.

If the Office provides access through terminals in the search rooms to data bases not owned by the Office, the Office is authorized to collect a fee and pass it on to the owner. This section does not prohibit charging the public for copies of records of charging for an entirely new service not now provided.

Automation programs

The Committee is deeply concerned by the findings of the Comptroller General's report on the automation of trademark operations.[10]

The Comptroller General's report states that, in attempting to automate its trademark operations, the Office did not (1) thoroughly analyze user needs; (2) adequately assess the cost effectiveness of its systems; (3) properly manage three exchange agreement contracts; and (4) fully test one of its systems before accepting it from the contractor. The Comptroller General found that although the Office addressed these problems it still needs to do more. To address these concerns the Committee, through the Subcommittee on Courts, Civil Liberties and the Administration of Justice, agreed to two amendments.

The first amendment would preclude the Patent and Trademark Office from expending fees obtained from users of the patent and trademark system to acquire any automatic data processing resources during fiscal years 1986, 1987, and 1988. This amendment proceeds under the theory that unless the Patent and Trademark Office has to justify fully the obtaining of appropriated monies for development of an automation plan, the automation activities will not receive adequate Congressional review. Concern was expressed that the user fee money expended by the Patent and Trademark Office for automation-related activities was not considered by the Patent and Trademark Office to be subject to the Brooks Act.[11] The amendment, by precluding reliance on user fees for procuring automatic data processing resources, will insure that the Brooks Act is honored in the future.

The second amendment adopted by the Subcommittee precludes the Commissioner of Patents and Trademarks from using his exchange agreement authority under section 6(a) of title 35, United States Code, for exchange of items or services relating to automatic data processing resources during fiscal years 1986, 1987, and 1988. The Committee offers this amendment to insure that any agreements entered into by the Patent and Trademark Office involving automatic data processing resources are subject to the Brooks Act. By this amendment the Committee intends that it does not want the exchange agreement vehicle used to avoid in any way the congressional oversight contemplated by government procurement law.

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[10] *See* letter from Acting Comptroller General to the Honorable Jack Brooks (dated April 19, 1985) and attachments.

[11] *See* Section 111 of the Federal Property and Administrative Services Act of 1949.

Considered together, the two amendments accepted by the Committee will insure that the appropriation mechanism, rather than either user fees or exchange agreements, will be relied upon for the procuring of any automatic data processing resources by the Patent and Trademark Office during fiscal years 1986, 1987, and 1988.

The Committee continues to strongly support the concept of automating the patent and trademark search files. By adopting modern computer technology, the Office should be able to greatly improve the usefulness and reliability of the search files. The Committee urges the Office to take immediate action to insure that the management errors identified in the Comptroller General's report will not be allowed to occur again.

STATEMENT

The Committee—acting through the Subcommittee on Courts, Civil Liberties and the Administration of Justice—held one day of hearings on legislation (H.R. 1628) to reauthorize the Patent and Trademark Office. On March 21, 1985, the subcommittee received testimony from the Administration (Donald J. Quigg, Acting Assistant Secretary and Commissioner of Patents and Trademarks); Intellectual Property Owners, Inc. (Donald W. Banner, President); and the United States Trademark Association (William A. Finkelstein, Executive Vice-President).

In order to elicit a response to questions not asked and therefore not answered at the hearing, on April 9, 1985, the Chairman of the Subcommittee—Congressman Robert W. Kastenmeier—requested further information from the Patent and Trademark Office concerning a number of subjects. Congressman Mike DeWine had, in the interim, sent a similar letter. PTO submitted timely responses to both inquiries.

On April 19, 1985, the Comptroller General of the United States filed a report with the Honorable Jack Brooks, Chairman of the Committee on Government Operations. The GAO report concluded that PTO had been deficient in developing and implementing an automation plan for trademark records. GAO made several concrete recommendations. If these recommendations are not implemented, GAO further advised that PTO's authority to engage in exchange agreements be circumscribed.

On May 2, 1985, the Subcommittee on Courts, Civil Liberties and the Administration of Justice marked-up H.R. 1628.[12] After enactment of two amendments, the bill was ordered reported favorably by voice vote as a clean bill.

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[12] The first amendment (offered by Mr. Moorhead) froze the authorization for fiscal year 1986 to what it was in fiscal year 1985. The amendment further added the Administration's proposed budget levels for fiscal years 1987 and 1988; froze trademark fees except for adjustments to reflect fluctuations during the previous three years on the Consumer Price Index; and preclude the PTO from imposing fees for the use of the patent and trademark search rooms. The second amendment (offered by Mr. Brooks) prohibited the use of patent and trademark fees for procurement of automatic data processing resources, and also circumscribes use of exchange agreements that relate to automatic data processing resources.

On May 8, 1985, the clean bill (H.R. 2434) was introduced by eleven members of the subcommittee: Kastenmeier, Moorhead, Brooks, Mazzoli, Synar, Schroeder, Berman, Boucher, Hyde, Kindness and DeWine.

On May 15, 1985, the full Committee considered H.R. 2434 and, a quorum of Members being present, ordered the bill favorably reported by voice vote. No objections were heard.[13]

SECTION-BY-SECTION ANALYSIS

Section 1—Authorization of appropriations

Subsection (a) authorizes appropriations for the Patent and Trademark Office for the payment of salaries and necessary expenses of the office. For fiscal year 1986, this section authorizes appropriations of $101,631,000; for fiscal year 1987, $110,400,000; and for fiscal year 1988, $111,900,000.

Subsection (a) also authorizes to be appropriated to the Patent and Trademark Office such additional amounts as may be necessary for each fiscal year for increases in salary, pay, retirement, and other employee benefits authorized by law.

Subsection (b) provides that funds made available by these appropriations are to be used to reduce by 50 percent the amount of the fees to be paid under title 35, United States Code, section 41(a) or 41(b), by independent inventors and nonprofit organizations as defined in regulations established by the Commissioner of Patents and Trademarks, and by small business concerns so defined under section 3 of the Small Business Act (15 U.S.C. § 632).

Section 2—Appropriations authorized to be carried over

This section provides that fees collected pursuant to title 35, United States Code, and the Trademark Act of 1946, as amended (15 U.S.C. § 1051 *et seq.*), and amounts appropriated under the authority of section 1 of the bill, may be carried over beyond the end of a fiscal year and remain available until expended. This section is not intended, however, to encourage accumulating and carrying over large amounts of excess fees.

The total resources for the Office in fiscal year 1986 (that is, the amount appropriated pursuant to this section plus fees collected pursuant to the patent and trademark laws, which will be available to the Office) are estimated to be $219.2 million; the total resources for fiscal year 1987 are estimated to be $234.9 million; and the total resources for fiscal year 1988 are estimated to be $237.3 million.

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[13] No amendments were offered. By unanimous consent, staff was authorized to make necessary technical and clarifying changes to the bill. Two technical and clarifying changes were made. First, section 4 of the bill was modified to use consistent terminology in achieving its goal: to prevent the Commissioner of Patents and Trademarks from imposing user fees for the use of public patent and trademark search rooms and libraries. Second, section 6 of the bill was clarified to allow the Commissioner to continue to use exchange agreements with bilateral and international intergovernmental organizations, such as the Japanese and European Patent Offices.

Section 3—Increases of trademark and certain patent fees prohibited

Section 3(a) prevents the Commissioner from increasing fees established under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) except for purposes of making adjustments which in the aggregate do not exceed fluctuations during the previous 3 years in the Consumer Price Index, as determined by the Secretary of Labor. The Commissioner also may not establish additional fees under such section during such fiscal years, except fees for new types of processing, materials or services.

Under current law (section 31 of the Trademark Act of 1946), fees for the filing or processing of an application for the registration of a trademark or other mark or for the renewal or assignment of a trademark or other mark will be adjusted no more than once every three years. Since the last adjustment occured on October 1, 1982, a fee adjustment is authorized to occur on or after October 1, 1985. A fee adjustment is not required every three years. A new three year period begins when the fees are adjusted.

Section 3(b) further prohibits the Commissioner from increasing patent fees established under section 41(d) of title 35, United States Code, except for purposes of making adjustments as described in section 41(f) of such title. The Commissioner also may not establish additional fees under such section during fiscal years 1986 through 1988, except fees for new types of processing, materials or services.

Current law (35 U.S.C. § 41(d)) provides that the Commissioner may establish fees for miscellaneous processing, services, or materials relating to patents not specifically set by Congress (*see* U.S.C. § § 41 (a) and (b)). The Commissioner's patent fees, already set under existing regulations to recover the estimated cost to the office of such processing, services, or materials are therefore "frozen" by section 3(b). The only exception is that the Commissioner may adjust fees on October 1, 1985, and no more often than every third year thereafter, to reflect any fluctuations occurring during the previous three years in the Consumer Price Index, as determined by the Secretary of Labor.

Section 4—Fees for use of search libraries prohibited

Under section 4 of the bill, the Commissioner of Patents and Trademarks may not impose a fee for use of public patent or trademark search rooms or libraries. The costs of such rooms and libraries shall come from amounts appropriated by Congress. This section is in conformity with past pronouncements of this Committee. For example, in the Report on Public Law 96-517, the Committee stated: "Maintaining the public search room confers a general public benefit. . . . [C]osts should be paid for entirely from appropriated funds."[14] This section does permit charging for copies of records.

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[14] *See* H. Rep. No. 96-1307, Part 1, 96th Cong., 2d sess. (1980), *reprinted in* [1980] U.S. Code Cong. & Adm. News 6460, 6467.

Section 5—Use of patent and trademark fees prohibited for procurement of automatic data processing resources

Section 5 provides that fees collected under section 31 of the Trademark Act of 1946 (15 U.S.C. 1113) and section 41 of title 35, United States Code, may not be used during fiscal years 1986 through 1988 to procure by purchase, lease, transfer, or otherwise automatic data processing resources (including hardware, software and related services, and machine readable data) for the Patent and Trademark Office. The net result of this section will be to bring the trademark automation system under Congressional oversight attendant to the appropriations process. The Committee expects the Patent and Trademark Office to prepare a plan for presentation to the Congress; said plan will delineate costs, explain method of financing and confront the issue of public access to government records.

Section 6—Use of exchange agreements relating to automatic data processing resources prohibited

Section 6 limits the authority of the Commissioner of Patents and Trademarks to use exchange agreements. The Commissioner may not exchange items or services (as authorized under section 6(a) of title 35, United States Code) relating to automatic data processing resources (including hardware, software and related services, and machine readable data) during fiscal years 1986 through 1988. This section shall not apply to any agreement with a foreign government or bilateral or international intergovernmental organization relating to data for automation programs.

This section is derived from GAO's conclusion that the Patent and Trademark Office has attempted to avoid procurement laws through the use of exchange agreements to develop an automation system for trademark records. In scope, however, section 6 is broadly written so as to apply to patent records.

OVERSIGHT FINDINGS

The Committee finds that the stimulation of American inventive genius requires a patent system that offers our inventors prompt, consistent and effective protection for their inventions. The Committee further finds that not only the interests of trade and commerce of this country, but also consumer confidence in goods, are furthered by effective administration of this Nation's trademark laws. An effective Patent and Trademark Office is the cornerstone for reliable patent and trademark protection.

The Committee on the Judiciary has oversight responsibility over the Patent and Trademark Office in the Department of Commerce. In addition to its ongoing oversight, the Committee's Subcommittee on Courts, Civil Liberties and the Administration of Justice held an oversight hearing with respect to the Patent and Trademark Office on March 21, 1985. The Committee expects to confirm its oversight activities in the future.

NEW BUDGET AUTHORITY

In regard to clause 2(1)(3)(B) of rule XI of the Rules of the House of Representatives, H.R. 2434 creates no new budget authority or increased tax expenditures for the Federal Government.

INFLATIONARY IMPACT STATEMENT

Pursuant to clause 2(1)(4) of rule XI of the Rules of the House of Representatives, the Committee finds that the bill will have no foreseeable inflationary impact on prices or costs in the operation of the national economy.

FEDERAL ADVISORY COMMITTEE ACT OF 1972

The Committee finds that this legislation does not create any new advisory committees within the meaning of the Federal Advisory Committee Act of 1972.

STATEMENT OF THE COMMITTEE ON GOVERNMENT OPERATIONS

In regard to clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings have been submitted to the Committee by the Committee on Government Operations.

COST ESTIMATE

In regard to clause 7 of rule XIII of the Rules of the House of Representatives, the Committee has not received a cost-estimate from the Congressional Budget Office.

COMMITTEE VOTE

On May 15, 1985, H.R. 2434 was reported favorably by voice vote, no objection being heard and a quorum of Members having been present.

OPENING STATEMENT OF HON. CHARLES McC. MATHIAS, JR., A U.S. SENATOR FROM THE STATE OF MARYLAND, CHAIRMAN, SUBCOMMITTEE ON PATENTS, COPYRIGHTS AND TRADEMARKS

Senator MATHIAS. Thank you very much, Representative Moorhead, for your statement.

First of all, let me apologize for not having been here at the moment that you began your statement, but I caught up with you pretty quickly. I had an 8 o'clock meeting which was supposed to last 1 hour, and it followed the usual rule and lasted almost 2 hours.

I think your testimony here is very useful. I know you are under time constraints and have to get to another engagement yourself. But let me pick up with the very last line of your statement, because I think that is the heart of the whole issue: "The future of our country is in the creativity of our citizens, and patents play a critical role in the innovation process."

That is really what it is all about, isn't it?

Mr. MOORHEAD. Yes, it is.

Senator MATHIAS. Here we are, with a trade deficit of $130 billion. We have known for years—at least, if you believe the economists, we have known for years—that we were moving away from a production economy and toward a service economy. Under those conditions, there would be not only the normal reliance on innovation and technical advance, but an enhanced reliance on the need for research, for innovation, for creativity, for pushing out into new areas.

Under those circumstances, aren't you really amazed that OMB would reflect its sense of the priorities by cutting the budget of the Patent Office?

Mr. MOORHEAD. I cannot believe that they would, because I think that the cost to our country would be many, many, many times that $16 million.

I just do not think that that is the place to make cuts. I believe in cuts, and I believe in being responsible economically. I guess I am about as conservative as anyone gets as far as that is concerned. But to cut this particular service—which could be the answer to many of the problems in our country, to encourage invention, to encourage people to come in with new methods of doing things—is just absolutely wrong.

And I hope to get a process patent bill this year, also; I certainly hope we can move forward in that area, also.

Senator MATHIAS. It is just like the kind of economy in which a fellow going fishing would buy the rod and buy the reel and buy the line, but then he says, "I am going to economize; I am not going to buy the hook."

Mr. MOORHEAD. He wouldn't catch many fish.

Senator MATHIAS. Not many fish. Maybe this is a mistake that, with your cooperation and your help, we can correct.

Mr. MOORHEAD. Thank you, Senator.

Senator MATHIAS. Senator Leahy?

Senator LEAHY. I have no questions. I will have some to submit for the record for some of the panelists. I have to also go to another committee, but I know Congressman Moorhead has worked extremely hard on this, and I find myself in agreement, especially on the points you and I discussed earlier this morning.

Senator MATHIAS. Thank you very much, Senator Leahy.

Mr. MOORHEAD. Thank you, Senator.

Senator MATHIAS. Thank you very much, Representative Moorhead.

Our next witness is Mr. Donald J. Quigg, the Acting Commissioner of the Patent and Trademark Office.

Let me say, Mr. Quigg, that we are unfortunately under severe time restraints. I will dispense with any comments on my own part. It would be helpful if you could summarize your statement just as concisely as possible, and the full statement will, of course, appear in the record.

STATEMENT OF HON. DONALD J. QUIGG, ACTING COMMISSIONER OF THE PATENT AND TRADEMARK OFFICE, WASHINGTON, DC, ACCOMPANIED BY BRADFORD HUTHER, ASSISTANT COMMISSIONER FOR FINANCE AND PLANNING

Mr. QUIGG. Thank you, Mr. Chairman.

With me at the table is Mr. Bradford Huther, who is the Assistant Commissioner for Finance and Planning.

Senator MATHIAS. We are happy to have you with us.

Mr. QUIGG. I appreciate this opportunity to appear before your subcommittee today. I will summarize my statement and note that the entire statement will be placed in the record.

Senator MATHIAS. Excuse me. I see our efficient staff has got the red, yellow, and green lights on, so I do not need to explain those to you.

Mr. QUIGG. Three years ago, we reported to the Congress that the Patent and Trademark Office was not serving the needs of inventors and industry adequately. The administration made a commitment to turn things around at the Patent and Trademark Office through an aggressive three-point plan: To reduce the average time it takes to get a patent to 18 months by 1987; to register trademarks in 13 months by the end of 1985; and to take aggressive steps toward automation of the Office by the 1990's.

The key to achieving these goals was to increase user fees to realistic levels. Our 1986 appropriation request represents less than 39 percent of our operating costs, or $84.739 million. This is a net decrease of 17 percent when compared to the 1985 appropriation level. These figures are reflected in the administration-proposed authorization measure, S. 866, that you, Mr. Chairman, and Senator Thurmond introduced on April 3, 1985.

PLAN 18/87 IN PATENTS

We ended the growth in the backlog of pending patent applications in fiscal year 1984 and are on schedule to reduce the time it takes to get a patent to 18 months by 1987. In fiscal year 1985, we expected to receive 107,000 patent applications, which had been the average of receipts over the previous 3 years. We are currently receiving applications at an annual rate of approximately 116,000. At this time, we cannot say with certainty that this higher rate will continue. We are using every management technique we can think of in order to reach the 18/87 goal without sacrificing quality. We believe the President's budget request, which is reflected in S. 866, will permit us to accomplish those goals.

PLAN 3/13 IN TRADEMARKS

The second commitment is to give first opinions on the registrability of trademarks in 3 months and to finally dispose of them in 13 months in 1985. I am pleased to say that we are on target and will achieve these goals this year.

AUTOMATING THE PATENT AND TRADEMARK OFFICE

In the trademark area, the main automation effort planned for the first stage was completed this year. We anticipate that the President's budget request will permit us to achieve full automated searching of all marks in fiscal year 1986.

A recent Government Accounting Office study of our trademark automation effort identified some shortcomings and offered some suggestions for improvement. As a result of the GAO study, I requested the Department of Commerce to conduct an independent review of the automation project, on both the technical aspects of trademark automation and the management practices of the Office and oversight by the Department.

I believe it would be fair to characterize the findings of the review as supportive of our efforts, although a number of corrective steps to improve the project were identified. Copies of the review have been made available to the staff of your subcommittee, and a copy of the review is submitted for the record. Most of the recommendations will be implemented by the end of 1985. I have informed the Secretary of Commerce that every suggestion for improvement is being implemented and that all should be completed by July 1986.

In the patent area, the automation effort is on schedule. Installation of equipment and data bases for testing full electronic searching will begin at the end of the year.

The Patent and Trademark Office is revising its automation master plan to reflect the experience gained to date, as well as to provide a greater number of decision points. The revised plan also accelerates those aspects of automation which will permit the greatest number of examiners and the public to use the full-text search capability of the automated patent search system [APS] to achieve improved patent quality at the earliest feasible time.

The question of whether user fees will be charged for use of the public search rooms remains an important issue. Assuming the revised automation master plan is approved, we estimate some parts of our automation system can be available to the public sometime next year. Allowing us to charge user fees for the use of the automated search systems as well as to use fee income to support our automation effort would be consistent with the administration's policy of recovering costs from those who benefit most directly from specific Government services.

Thank you, Mr. Chairman.

Senator MATHIAS. Thank you very much, Commissioner.

[The following statement was submitted for the record:]

PREPARED STATEMENT OF DONALD J. QUIGG

SUMMARY

The major goals of the Patent and Trademark Office (PTO) are: (i) to reduce the time it takes to get a patent to 18 months by 1987; (ii) to register trademarks in 13 months by 1985; and (iii) to take aggressive steps toward automation of the Office by 1990. The PTO is meeting the schedule for achieving all these goals.

In FY 86, the program level request for the PTO is $219,236,000, an increase of $16,969,000 over FY 85. The FY 86 appropriation request, however, is $16,892,000 or 17% less than the FY 85 appropriation level. Increased fee receipts and the use of accumulated excess patent and service fees from FY 83 - FY 85 make it possible for appropriations to pay less than 39% of the operating costs of the PTO in FY 86.

* * *

Mr. Chairman and Members of the Subcommittee:

I welcome this opportunity to appear before your Subcommittee today. My prepared statement addresses three topics: (1) a review of the status of our programs to upgrade the U.S. Patent and Trademark Office and improve its service to industry and inventors; (2) an outline of our legislative activities; and (3) a summary of our activities affecting the protection of patents and trademarks internationally.

Three years ago we reported to the Congress that the Patent and Trademark Office was not serving the needs of inventors and industry adequately. Since then the Administration has made a commitment to turn things around at the Patent and Trademark Office through an aggressive three-point plan:

- To reduce the average time it takes to get a patent to 18 months by 1987 (Plan 18/87);
- To register trademarks in 13 months by the end of 1985, with an opinion on registrability being given to an applicant in three months (Plan 3/13); and

- To take aggressive steps toward automation of the Office by the 1990s.

The key to achieving these goals was to increase user fees to realistic levels. This was accomplished with the enactment of Public Law 97-247 in August 1982, which also authorized the Office to use these fees, together with appropriated monies, for the three-year period covering fiscal years 1983 through 1985.

P.L. 97-247 further provided that the statutory patent fees can be adjusted administratively every three years to take into account any inflation that may have occurred. We published a Notice of Proposed Rulemaking in the Federal Register on June 21, 1985, to adjust these fees by 11.7% effective October 1, 1985. This increase represents the projected change in the Consumer Price Index for the three years ending September 30, 1985. Patent service fees are proposed to be increased to recover the estimated average cost of providing those services. Changes in trademark fees will be deferred until a review of the trademark automation has been completed.

Our FY 85 program level is $202,267,000 which is comprised of an appropriation of $101,631,000 and projected offsetting fees of $100,636,000. However, the Deficit Reduction Act of 1984 reduced this amount by $1,472,000. We are absorbing this reduction and a 3½% pay raise that became effective during the year. We are authorized 3,438 positions in the Patent and Trademark Office for this year.

The 1986 program level request for the Patent and Trademark Office is $219,236,000, an increase of $16,969,000 over the program level for 1985. With projected receipts from fees of $118,504,000, and $15,993,000 of accumulated excess patent and service fees from the period 1983 through 1985, the 1986 appropriation request represents less than 39% of our operating costs, or $84,739,000. This is a net decrease of $16,892,000 or 17% when compared to the 1985 appropriation level. The 1986 program level calls for 3,408 positions or a decrease of 30 positions from 1985. These figures are reflected in the Administration proposed authorization measure, S.866, that you, Mr. Chairman and Senator Thurmond introduced on April 3, 1985, and which is pending before the Judiciary Committee.

Plan 18/87 in Patents

We ended the growth in the backlog of pending patent applications in FY 1984 and are on schedule in our plans to reduce the time it takes to get a patent to 18 months by 1987. In FY 1984, we received 109,539 patent applications and disposed of or completed work on 113,300. Production units, a measure which we regard as a more accurate indicator of the work performed by the Patent Examining Corps, reached 115,778 in FY 1984. Production units are an average of the number of first actions or first opinions on patentability (of which there were 118,256 in FY 1984) and the number of disposals (of which there were 113,300 in FY 1984). The average pendency - the time it takes from filing to either grant or abandonment - was 25.0 months at the end of FY 1984 and is currently 24.2 months.

In FY 1985, we expected to receive 107,000 patent applications, but are currently receiving applications at an annual rate of approximately 116,000. At this time, we cannot say with certainty that this higher rate will continue. We are using every management technique we can think of in order to reach the 18/87 goal without sacrificing quality. We believe the President's budget request, which is reflected in S.866, will permit us to accomplish those goals. We plan to produce 122,000 production units comprised of 125,400 first actions and 118,600 disposals. We expect to reach a pendency period of 23.2 months by the end of FY 1985.

We have hired 660 examiners over the past three years and plan to hire an additional 200 examiners this year. This will bring our total professional examining staff to over 1400. Hiring next year will be significantly reduced so that our production will essentially match the number of new applications once we achieve our 18-month goal in 1987.

Plan 3/13 in Trademarks

Our second commitment is to give first opinions on the registrability of trademarks in three months and to finally dispose of them in 13 months in 1985. I am pleased to say that we are on target and will achieve these goals this year.

In FY 1984, 61,480 trademark applications were filed and 82,130 disposals were achieved, including 52,290 registrations. This year we expect to receive 63,300 trademark applications. Through a combination of increased staff and the use of overtime, we are already rendering first actions in less than three months and will be finally disposing of trademark applications in 13 months by the end of this year. To reach these goals, we expect to dispose of 80,300 cases and register 68,000 trademarks, the highest number ever in the history of the Office.

Last year, we employed a record number of lawyers who examine our trademark applications, but we have already initiated an effort to reduce the number of trademark personnel so as to balance production and projected filings in order to maintain the pendency goal in the future. A pilot paralegal program is being established to assist in the trademark examining function. The eight paralegal positions for this program will replace an equal number of trademark examiner positions already vacated this year.

Automating the Patent and Trademark Office

In the trademark area, the main automation effort planned for the first stage was completed this year. We have established a very powerful automated search system. "T-Search," the system that we are now using for searching and retrieving information about registrations and applications, is complete but the introduction of new data quality standards has led to some delay in full use of the system. However, we began using the system to search and retrieve the word portions of trademarks in July 1984. In May and June 1985, the examiners made more than 5,500 word searches on a voluntary basis.

Part of the system for searching the design components of trademarks has been tested and accepted. Correction of the "design" data base to acceptable accuracy standards has been started. Defective coding has caused some operational problems and is being corrected. We anticipate that the President's budget request will permit us to achieve full automated searching of all marks in FY 1986.

On April 2, 1985, we published the first trademark Official Gazette produced through in-house photocomposition capability.

This capability, which resulted from our trademark automation effort, enables us to print record volumes of trademark registrations and to terminate long-standing commercial contracts.

A recent Government Accounting Office study of our trademark automation effort identified some shortcomings and offered some suggestions for improvement. As a result of the GAO study, I requested the Department of Commerce to conduct an independent review of the automation project - on both the technical aspects of trademark automation and the management practices of the Office and oversight by the Department. I believe it would be fair to characterize the findings of the review as supportive of our efforts, although a number of corrective steps to improve the project were identified. I have informed the Secretary of Commerce that every suggestion for improvement is being implemented and that all should be completed by July 1986.

In the patent area, we selected the Planning Research Corporation (PRC) as the systems contractor to develop and install the "Automated Patent Search System (APS)." PRC is being supported by Chemical Abstracts Service, a not for profit arm of the American Chemical Society. Chemical Abstracts brings to the partnership a sophisticated foundation in search software development. The contract costs are expected to total about $300 million through 1991, if the PTO exercises all of its options for computers, communication, and software under the contract.

The main APS computers were installed in early 1985. Initial testing of the text-search software began this month. Installation of equipment and data bases for testing full electronic searching will begin at the end of the year for a small examining group (Group 220). Following successful tests, the system will be extended gradually to the other examining areas to provide the full electronic search services to other examiners.

The Patent and Trademark Office is revising its Automation Master Plan to reflect the experience gained to date as well as to provide a greater number of decision points. The revised plan also accelerates those aspects of automation which will permit the greatest number of examiners and the public to use the full-text search capability of APS to achieve improved patent quality at the earliest feasible time. The revised plan is currently under review in the Commerce Department.

The APS system will have a number of improvements that are essential to the achievement of improved patent quality. Perhaps the most important of these are the assurance of the completeness of the search files and the use of additional search tools. The APS system is one of the important steps we have taken in achieving our goal of providing the public with a first-class Patent and Trademark Office.

Last year, our Office participated in a trilateral conference with the European and Japanese Patent Offices. We reached agreement on many important issues, including the general standards for exchanging data in machine-readable form. Our two partners are moving rapidly to automate their respective operations and we expect to start exchanging electronic data for test and evaluation by the latter part of this year.

The question of whether user fees will be charged for use of the public search rooms remains an important issue. Assuming the revised Automation Master Plan is approved, we estimate some parts of our automation systems will be available to the public as early as next year. Allowing us to charge user fees for the use of the automated search systems as well as to use fee income to support our automation effort would be consistent with the Administration's policy of recovering costs from those who benefit most directly from specific government services.

Legislative Activities

Several laws enacted during the 98th Congress require implementing regulations and procedures to be administered. The Patent and Trademark Office has taken the needed steps.

Guidelines to implement Title II of P.L. 98-417, the "Drug Price Competition and Patent Term Restoration Act of 1984," were published in the Office's Official Gazette on October 9, 1984. We plan to publish regulations by late summer. As of the beginning of this month, 27 applications for patent term extension have been received. After review by the Department of Health and Human Services, the Patent and Trademark Office has determined that 15 of the applications were not eligible for patent term extension. The remaining applications are still under review.

We are also involved with the implementation of the "Semiconductor Chip Act of 1984." Section 902 of this law authorizes the President to proclaim eligibility for protection for a foreign mask work owner if that owner's home country provides equal or adequate protection for mask works of U.S. origin. Requests for the President to issue such proclamations have been received from the United Kingdom and Australia, and are being considered.

Section 914 of the same law authorizes the Secretary of Commerce to determine, on an interim basis, the eligibility for protection of a mask work of foreign origin. A petition for protection may be made by a party or person as well as by a government, and such petitions have been received from the Electronic Industries Association of Japan, the Federation of Swedish Industries, the Government of the Netherlands, four Canadian industry associations and the Commission of the European Communities. Comments on the Japanese petition were requested and received from the public and a hearing was held on May 8, 1985. Public comments have been sought on the petition from the Federation of Swedish Industries, and a hearing on this petition was held May 29, 1985. The petition of the Netherlands will also be the subject of public comment. An order extending interim protection to Japanese nationals was signed on June 6, 1985, and an order extending interim protection to Swedish nationals was signed on June 13, 1985. Orders for the Netherlands and Canada were signed on June 21 and June 27, respectively. In regard to the petition of the Commission of the European Communities, a hearing has been scheduled for today. Interim orders were also signed on June 21, 1985, for the United Kingdom and Australia to cover their nationals during consideration of their Section 902 petitions.

The Federal Register of March 7, 1985, contains final rules of practice needed to put into effect various requirements of P.L. 98-622, the "Patent Law Amendments Act of 1984," enacted on November 8, 1984. These rules deal with such matters as the definition of prior art in determining the novelty of an invention developed in a corporate environment, the definition of joint inventorship, the examination and issuance of Statutory Invention Registrations, and various provisions relating to applications filed under the Patent Cooperation Treaty. P.L. 98-622 also enabled us to merge our Board of Appeals and Board of Patent Interferences and to streamline our patent interference practices. We published regulations to implement the changes in patent interference practice in the Federal Register of December 12, 1984.

On February 13, 1985, Secretary Baldrige forwarded to the Congress legislation to implement Chapter II of the Patent Cooperation Treaty (PCT) which you, Mr. Chairman, introduced as S. 1230. This legislation, if enacted, would authorize the United States to serve both as an International Preliminary Examining Authority and an elected Office under the Treaty. By virtue of United States adherence to Chapter II, applicants will be able to use an international preliminary examination report in deciding whether to proceed with foreign patent applications. Adherence to Chapter II will also provide inventors additional time for the payment of fees before the application enters the national stage in the various elected national offices. In order to adhere to Chapter II of the PCT, however, the United States must withdraw its reservation to that Chapter, which was made when the Treaty was ratified in 1975. On July 27, 1984, the President requested the Senate's advice and consent to that action.

On June 28, 1985, Secretary Baldrige forwarded to the Congress legislation containing a few proposals to simplify and improve the patent and trademark laws. This measure includes provisions to shorten the response period for trademark applicants, to eliminate the requirement to verify petitions to cancel a mark, and to amend the plant patent law to protect plant parts. We developed this last proposal because many commercially valuable plants are bred mainly for their parts; e.g., fruits, cut flowers, or foliage. While protection is now available for the entire plant, it may not be available for its parts. Patented plants can be lawfully acquired in the United States, then taken abroad for reproduction. Since protection for plants is often not available in foreign countries, plants are propagated overseas and plant parts are imported into the United States without any compensation for the patent owner.

International Activities

We have been involved in a number of activities affecting the protection of patents and trademarks internationally. First and foremost has been the eleven-year effort to revise the Paris Convention for the Protection of Industrial Property. The Fourth Session of the Diplomatic Conference, held in Geneva, Switzerland, from February 27 to March 23, 1984, was again attended by a strong U.S. delegation. Not only did we have outstanding industry advisors with the delegation at all times, we were also fortunate enough to have several Congressional advisors.

As in previous Sessions of the Conference, the United States delegation approached the Fourth Session determined to reach an acceptable compromise solution to the developing countries' demands for the right to grant compulsory exclusive licenses under Article 5A. Although an acceptable compromise had been developed during the Third Session of the Conference in 1983, it could not be agreed upon during the Fourth Session. Similarly, no agreement could be reached among the three groups of countries - developed, developing, and socialist - on other important topics of the revision efforts. These include a new Article 10quater concerning protection for geographical indications and the assimilation of inventors' certificates to patents in Article 1. In light of this stalemate, the Conference recommended that the Assembly of the Paris Union convene a Fifth Session of the Conference only after prospects for positive results were found. It also requested that the Assembly set up machinery for consultations designed to achieve these results.

A "Consultative Meeting" among some 30 countries was held last month in Geneva. After some lengthy procedural discussions and a decision to limit discussions to Article 5A, the three regional groups each reaffirmed and continued to maintain the positions they had previously taken. Thus, no prospects for positive results were found. This will be reported to the Paris Union Assembly for consideration at its meeting in September. The Assembly will determine the next step in the revision effort.

Bilateral cooperation between the U.S. Patent and Trademark Office and the European Patent Office has also continued in connection with the Patent Cooperation Treaty. In order that the benefits of Chapter II can be made available to U.S. industry as soon as possible, we requested that the European Patent Office act as an International Preliminary Examining Authority for U.S. applicants until we can perform those functions. The European Patent Office has agreed to do so and each year will examine up to 500 applications for which it previously conducted the international searches. By 1987, the Patent and Trademark Office will be in a position to shoulder this responsibility, assuming, of course, that Congress agrees to enact the legislation submitted by Secretary Baldrige and the Senate gives its advice and consent to withdraw the reservation to Chapter II.

The Office has actively worked with other countries to improve intellectual property protection available to U.S. nationals worldwide. In the past year, we have provided training and technical assistance to eleven developing countries and the African Intellectual Property Organization. Beginning this month, we have instituted a trial program to train officials from developing countries who are working in the intellectual property field in an attempt to raise their awareness of the need for effective protection of intellectual property and to give them the necessary expertise to bring this about.

Finally, we are pleased that the People's Republic of China has adopted a patent law which entered into force on April 1, 1985. We have helped China establish documentation centers in Beijing and six other cities and have provided them with collections of United States patents to effectively implement this law.

Senator MATHIAS. Could you tell us a little bit about the exchange agreements by which the Patent and Trademark Office converted the trademark data base?

Mr. QUIGG. Yes, sir. We entered into one agreement with a company called Compu-Mark. Under that agreement, we made available copies of bound volume pages of registrations, trademark registrations, and assignment records. There were approximately 1.2 million pages there. We agreed to provide data base tapes for 10 years. We agreed to limit public access to the data base using "comparable and equivalent" search techniques as now used to access paper search files. We agreed not to give the data base to third-party vendors who could then compete with Compu-Mark.

The initial cost to the PTO was $100,000; cleanup costs are another $35,000, which was PTO's share of total cleanup costs, plus $440,000, the undiscounted value of tapes for 10 years.

Compu-Mark agreed to give PTO magnetic tapes of all data keyed from the 1.2 million records. The estimated keying costs of Compu-Mark were $1.1 million, based on the cost if done by ICC, plus $35,000 cleanup costs, which was the share of Compu-Mark.

We entered into a second agreement with Thomson & Thomson under which we made available copies of design trademarks from bound volumes. There were approximately 250,000 documents there. We agreed to provide data base tapes for 10 years. We agreed to limit public access to the data base using "comparable and equivalent" search techniques, as used to access paper search files. We agreed not to give it to third-party vendors who could then compete with Compu-Mark. The initial cost to the PTO was $20,000 over the next 10 years. There were no cleanup costs to the PTO other than giving new copies of source documents to Thomson & Thomson to make corrections, and about $440,000 undiscounted value of tapes to be given to Thomson & Thomson.

Thomson & Thomson agreed to give the PTO a digital facsimile image of design marks retrospective, plus 10 years in the future. They keyed all marks according to PTO-developed codes. The codes were deficient in human figures and geometric elements, and application of the codes to marks are also deficient.

We estimated digitizing and coding costs to be $1 million, and Thomson & Thomson is absorbing all cleanup costs, which we estimate to be about $50,000.

A third agreement was entered into with TCR. We agreed to give TCR copies of incoming applications for 10 years. We agreed to give tapes of incoming applications data only to Compu-Mark, but not other third-party vendors. We estimated $10,000 to provide copies, and the next 10 years of tapes of issued registrations estimated to be about $440,000 undiscounted value.

TCR's consideration to the Patent and Trademark Office was to give us keyed application data, bibliographic information, and word marks; the estimated value of the tapes was $1 million.

Then we have three additional exchange agreements with data base firms who are offering their data base for commercial use—Pergamon, Mead Data, and Derwent. The patent tapes we provide in those agreements is for free access to their data bases by our examiners.

For 6 years, the PTO had sought to obtain trademark data bases for use in the trademark search room. The current vendors would only agree to make data bases available with comparable and equivalent restrictions. The alternative was either to agree with the restrictions that they imposed, or to spend from $2 to $3 million to begin from scratch, which money did not exist at the time we started. PTO chose to go the direction of the exchange agreement.

We certainly would consider a buyout of those agreements. If we were told to cancel the agreements entirely and forget about them, it would be at a tremendous cost, because we would have to start from scratch to rebuild the data base, and we have expended a considerable amount of money in perfecting the word mark data base and are presently embarked on perfecting the data base for the images.

Senator MATHIAS. I can understand why you would not want to give the list to a third-party vendor. But why did you agree to the limitations on the public use of the trademark data base?

Mr. QUIGG. Well, as I said, for 6 years prior to our actual embarkation on this program in 1982, we had been attempting to obtain these commercial data bases so that we could use them, and the suppliers were unwilling to permit us to have them. So it was a matter of take that limitation or expend $2 to $3 million to build the data bases ourselves.

Senator MATHIAS. In other words, it was an essential condition of the deal.

Mr. QUIGG. That is true.

Senator MATHIAS. And you estimated that the public's access was not worth the $2 to $3 million that it might have cost otherwise?

Mr. QUIGG. Well, I think we were driven by the fact that we simply did not have the $2 to $3 million.

Mr. HUTHER. Mr. Chairman, if I might add also, one of the fundamental public policies which we followed when we developed this project was that our role was contrasted with that of the private sector. There were then and there are now commercial search firms that exist to provide similar services to the public on a commercial rate, fee-paying basis, so that one of the considerations that went into our decision was not to compete with those organizations, because we do not consider it to be an appropriate Federal function for us to do so.

However, in recognizing our obligation to provide public access to our records, the "comparable and equivalent" restriction was one that we thought, at the time, was an appropriate one, based on the fact that it meant that the public could continue doing what they had been doing for the past 40 years—that is, providing services and receiving information from the trademark data bases, exactly the same with the electronic file as they had been doing for the previous 40 years with the paper file.

Senator MATHIAS. Was there any attempt to approach OMB to sound out whether the money would have been available from public sources?

Mr. HUTHER. Each year, as part of our budget review process with the Department of Commerce and the OMB, a wide range of such issues are discussed, and in the last 3 budget years—fiscal years 1983, 1984, and 1985—the concerns of the Trademark bar have been presented to the officials at the Office of Management and Budget, particularly from the early stages of the fee program, when it was then the view of the trademark groups that some portion of the trademark budget should always remain funded by taxpayers. Those issues were discussed and were considered, but the views of the administration, I think, were reflected in the last 3-year appropriation request, which has provided no taxpayer funds.

Senator MATHIAS. What has happened is that this dispute has finally reached the Congress. Perhaps it would have been better had the Congress been brought into it at an earlier stage, before we have reached this sort of confrontational situation.

But let me ask you this. What would be the effect on automation if the Patent and Trademark Office were to be precluded from using exchange agreements to obtain automated services?

Mr. QUIGG. I think that we have to approach that from several sides. As I previously said, if we had to strike the exchange agreements, it would mean that we would have to take out of our system the data bases which we have presently developed and the way searching is being used by the examiners at this time, and they are finding that it is more beneficial than paper search. So, we would lose that, which would result in a loss not only of the $2 to $3 million, but also a couple of years' time in order to go forward.

I think that our position with respect to exchange agreements is that, as far as we are concerned, we can get along without exchange agreements in the future, and simply go the procurement route. We thought that Public Law 97-247 had given us the prerogative, or strengthened the prerogative, of entering into exchange agreements; but if this is not what Congress wants us to do, we are certainly more than willing to abide by that decision.

Senator MATHIAS. Are there any agreements that would have to be terminated if H.R. 2434 became law?

Mr. QUIGG. I think, without any doubt, the agreements I mentioned—I should point out that TCR and Thomson & Thomson have been merged since Thomson & Thomson took over TCR—those agreements would have to be terminated; at what cost, we do not know. There would be some settlement cost.

As far as Pergamon and Mead Data are concerned, these are commercial data bases which are of considerable value to the patent examiners, particularly until such time as we have fully developed our own data bases, and it would hurt the quality of the product coming out of the Office if we were to do that.

Senator MATHIAS. Everywhere I turn these days, I seem to run into the question of user fees. When I look at the great harbor of Baltimore, the natural gateway to the east coast of the United States, I am confronted with the subject of user fees.

What about this controversy over the user fees in the Patent and Trademark Office? What is the administration's attitude toward user fees at the PTO?

Mr. QUIGG. Well, the PTO has simply followed a policy which was established by an administration back in September 1959, in which they stated that if a particular group of people were obtaining services from the government at a cost, that the agencies should attempt to recover those costs from that particular group. This particular administration has favored that policy that was established many years ago, and it was on that basis that the Patent and Trademark Office went forward with its proposals.

Now, a lot of the controversy is coming somewhat prematurely, and I think we probably precipitated that by publishing a notice of our proposed intention to charge user fees for the public use of the automated search room. From an operational standpoint it would not matter where the money comes from, whether it comes from budget authority or whether it comes from user fees. The policy of the administration is to use user fees for that particular point.

I think our position would simply have to be that we will not be opening a public search room for automated searching in trademarks for approximately a year and, during that time, I would hope that the Congress would give us some direction as to what they would propose.

Senator MATHIAS. Is it appropriate to apply user fees to automate the office?

Mr. QUIGG. I think it is. I think historically, the fees have been considered as being a basis for total support of the trademark program. The report for Public Law 97-247 says:

> It is expected that the Commissioner will set the fees in a way that the filing fee will be kept as low as possible to foster use of the Federal registration system. This may require that other fees for services or materials related to trademarks recover more than their actual estimated cost in order that the Commissioner achieve in the aggregate adequate cost recovery for the entire trademark operation.

We have in our budget proposals spelled out specifically what we understood that policy to be, and if I might, I would like to refer to the budget proposal that went up for the year 1984. It says: "The 1984 increases will reduce pendency and backlog and provide for automation including workstation and user services, text and image capture, and management services subsystems." That budget was approved by Congress, and we have acted accordingly.

Senator MATHIAS. Is that conclusion supported by a study of the automation project?

Mr. QUIGG. I am not exactly certain that I understand your question.

Senator MATHIAS. Has the Commerce Department had a study made of automation?

Mr. HUTHER. Mr. Chairman, yes. The results of the Department of Commerce study, I suppose, makes three basic points. The first is that the automated search system is currently in place and being used by those examiners, trademark attorneys, on our staff who have been trained to use it, that there is no doubt in their minds that the automated search system represents a quality improvement over what existed before.

No. 2, as GAO concluded, there were methods used in automating the PTO's operation—most notably, those containing the factors involved in exchange agreements—which they believe would have resulted in a better system had we followed Federal procurement regulations.

The third issue is, however, that there are fine-tuning provisions that are appropriate to make the system more effective than it now is, building on the base that is in place today.

So that, to answer your question, in connection with the appropriations that have been enacted for the last 3 years, we believe those user fees have been used effectively to finance the automated system that is in place. We recognize that it is not a perfect system at this stage, but we do not believe it requires major corrective action to meet the needs that the public has identified and that we are striving to provide.

Senator MATHIAS. Do you have a copy of that Department of Commerce study of automation?

Mr. HUTHER. Yes; and we will be happy to supply it for the record, Mr. Chairman.

Senator MATHIAS. We would like to have it included as a part of the record.

Thank you very much.

[Document referred to above follows:]

U.S. Department of Commerce

REVIEW OF PATENT AND TRADEMARK AUTOMATION

Chapter 1:
Management Review of Patent and
Trademark Office Automation Project

Chapter 2:
ICST Report on Trademark Automation

July 12, 1985

FINAL

Patent and Trademark Automation:
Technical and Management Reviews

Recognizing legitimate private sector criticism of the delays and growing backlogs in both patent and trademark processing, Secretary of Commerce Malcolm Baldrige launched a multi-faceted program to reverse that trend in 1981. A key element of the program was the Automation Master Plan. It described the automation of the patent and trademark process which was to be completed by 1990. The Patent and Trademark Office Automation Project is a major priority of the Department and an important step toward reaching our goal of reducing patent pendency time to 18 months by 1987.

The April 19, 1985 GAO report, "Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operation", coupled with Congressional criticism, raised serious concerns in the Department over the progress of the automation effort. Two special studies were launched to examine shortcomings and identify potential improvements. Both were conducted with the full cooperation of PTO management.

First, a task force of management experts was assembled from throughout the Department to examine management practices being used by PTO and the adequacy of Departmental oversight in all aspects of the automation project. A report of that effort is included as Chapter I of this paper. The report covers project organization and management, project planning, procurement planning and management, and financial management and budget processes.

Second, the highly-respected Institute for Computer Sciences and Technology (ICST) of the National Bureau of Standards was asked to conduct an overall technical evaluation of the automation project, beginning with trademark automation. The initial ICST report on trademark automation has been completed and is included as Chapter II of this paper. The ICST report evaluates whether trademark automation efforts are meeting established objectives. It specifically covers status of the Trademark Report and Monitoring System and the Trademark Search System, performance of the two systems, requirements analysis, and data quality.

Steps are already underway to correct the deficiencies identified in these studies, many of which are described in the study reports themselves. The Office of the Secretary is preparing a comprehensive implementation plan which will be completed by July 26, 1985.

* * *

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MANAGEMENT REVIEW OF PATENT AND TRADEMARK OFFICE AUTOMATION PROJECT

July 1985

EXECUTIVE SUMMARY

The Patent and Trademark Office (PTO) Automation Project is a direct result of Congressional, Executive Branch and private sector concerns over the exponential growth of PTO workloads. Based on a mandate contained in P.L. 96-517, in 1981 the PTO undertook the development of an Automation Master Plan that was to lay out a program for automating the patent and trademark processes. This plan was published in 1982. The plan describes an approach to develop a paperless operation in PTO by 1990, at an estimated cost over 20 years of over $700 million.

On April 19, 1985, the General Accounting Office (GAO) published a report entitled, "Patent and Trademark Office Needs To Better Manage Automation of Its Trademark Operation." Because of the findings in that report, the senior management at the Department of Commerce, in collaboration with the Commissioner for Patents and Trademarks, established a task force consisting of experts from the Department in several disciplines. The purpose of the task force was to examine management practices being used by PTO and the adequacy of Departmental oversight in all aspects of the Automation Project, and to submit necessary recommendations to the Assistant Secretary for Administration.

It is the nature of a management review of this type to focus on issues or problems associated with the subject of the study. Our report follows that principle. It is equally important to place such findings in their proper context to allow valid judgements to be made of the efficiency and effectiveness of the entire process being reviewed.

We did identify problem areas that need to be addressed, especially in the formal planning process and in the procurement area. But we also concluded that PTO is doing a number of things right and that the Bureau has taken steps to correct previously-identified deficiencies. This will need to continue to insure that all the issues raised in this report and earlier studies are resolved. We were also impressed that PTO's basic management system is sound. In this regard:

- PTO has an effective management structure in place to oversee the Automation Project. This consists of a system of internal committees, a matrix scheme on the operational side, and the development of a strong control and monitoring mechanism.
- The budget and financial management operations in the Agency are well organized and responsive to Agency and Department management.
- PTO has taken steps to strengthen its procurement management activities.
- The fees charged to the public are consistent with standing law and are allocated in the manner approved by OMB and the Congress.

Major Findings and Recommendations

We have included 21 recommendations in our report, a summary of which appear in Section VI. We consider nine areas to warrant special mention:

- The Office of the Secretary should establish an oversight committee for the Automation Project similar in responsibility to the 1990 Census Automation Committee. GSA should be given the opportunity to serve on the Committee. In addition, Congressional oversight committees should be periodically briefed. This will significantly improve the flow of communications and the decisionmaking process.

- PTO should complete its update of the Automation Master Plan (AMP) before making further automation decisions. The plan update should state current program objectives, performance requirements, and projected costs and benefits. The plan should be updated annually and be specifically considered by the Automation Coordinating Committee, the various boards, and the automation staff to guide the automation effort. Based on the revised AMP, PTO should prepare a document integrating all technical issues, schedules and costs related to the entire automation effort.

- Systems requirements should be properly documented and communicated in the future.

- The Office of the Secretary should review the PTO planning process and provide assistance to PTO in developing an improved procurement planning system that will integrate all the procurements related to the automation effort.

- The Team recommended that one procurement manager be designated to oversee support for the PTO Automation Project. The Assistant Secretary for Administration has decided to complete the delegation of procurement authority to PTO. Departmental oversight should be strengthened.

- The Office of the Secretary needs to provide PTO with advice on the use of and GAO concerns about the Exchange Agreements -- especially guidance on the implications of H.R. 2434 on the pending contracts designed to "buy out" the data bases prepared under the Exchange Agreements. At present, actions on "buy outs" are on hold.

- The Office of the Secretary and PTO need to establish a joint working group to resolve all the outstanding issues under the PRC contract for the Automated Patent System. PTO has been making progress on improving the cost and schedule controls and expects to have these aspects of the contract fully functioning by September 1985.

- Even though half of the financial resources came from services related to the private sector, the PTO financial system does not provide business-type reports on the agency's operation. In recognition of this, and in order to meet the needs of external users as well as those of its own managers, PTO has agreed to provide business-type reports.

- PTO should develop formal written policies addressing the administration of fees. These policies should be reviewed by the Office of the Secretary. Because a significant part of the PTO's programs are funded by fees paid by private users, it is important to know the purposes for which these fees are being used. PTO personnel should clearly understand the purposes for which fees can be used.

The main recommendations of this Management Review coincide with those made by GAO in its April 1985 report. While problems have been identified in this report and in the GAO study, it is important to note that PTO has taken numerous corrective actions to date. Moreover, the PTC shows a willingness to continue to address deficiencies in order to meet the goals initially set for this significant automation effort. The Office of the Secretary also is committed to correcting the problems discovered and to insuring that they do not reoccur.

An Implementation Plan to carry out the team's recommendations will be prepared by the Office of the Secretary by July 26 and will stipulate due dates and specific staff responsibilities. That plan will be incorporated into and tracked under the Department's Management Planning System.

SECTION I

INTRODUCTION

The Patent and Trademark Office (PTO) Automation Program is a direct result of Congressional, Executive Branch and private sector concerns over the growth of PTO workloads. The major goals of the automation program are to improve the quality of patents and trademark registration through improved file integrity and the provision of automated search techniques to examiners, to increase overall cost-effectiveness, and to decrease pendency times.

Based on a mandate contained in P.L. 96-517, in 1981, the PTO undertook the development of an Automation Master Plan that was to lay out a program for automating the patent and trademark process. This plan was published in 1982 after extensive coordination and accommodation of interested parties. For example, over 600 copies of the draft plan were provided public and private sector organizations, and public hearings were held on the plan's proposals before it was published. The plan describes an approach to develop a paperless operation in PTO by 1990, at an estimated cost over 20 years of over $700 million.

On April 19, 1985, the General Accounting Office (GAO) published a report entitled, "Patent and Trademark Office Needs To Better Manage Automation of Its Trademark Operation." Because of the findings in that report, the senior management at the Department of Commerce, in collaboration with the Commissioner for Patents and Trademarks, established a task force consisting of multidisciplinary experts from the Department.

The purpose of the task force was to examine management practices being used by PTO in all aspects of the Automation Project, and to submit necessary recommendations to the Assistant Secretary for Administration. The task force used the GAO report (and the NAVELEX report issued in April 1985) as "roadmaps" to guide its inquiry. We looked into other areas as well as those covered by those two reports to determine the extent to which PTO is applying sound management practices in the Automation Project. A copy of the study outline developed by the task force is at Appendix A.

The task force used a combination of interviews and examinations of files in conducting the study. Over 30 officials in both PTO and the Office of the Secretary were interviewed; a list of those officials is at Appendix B.

We noted that on June 3 the Deputy Secretary requested that NBS' Institute for Computer Sciences and Technology (ICST) conduct a review of the technical aspects of PTO's patent and trademark automation projects, with initial focus on the trademark automation operation. This technical review is proceeding and is scheduled for completion by September 30, 1985. We coordinated with the ICST team to avoid any unnecessary overlap, to share views on areas of mutual concern, and to reduce the burden of our review on PTO.

The cooperation and openness on the part of PTO officials impressed us. Their attitudes indicated a willingness to "open their books" to us during our review, and we believe this reflects PTO's confidence in the way they are managing the Automation Project. We think that confidence is well-placed. Even though our report contains numerous recommendations, the sheer scope and complexity of the Project relegates many of our recommendations to a fine tuning of the management processes involved. It is our judgment that PTO has taken numerous corrective actions during the last nine months to respond to criticisms leveled at them and the Automation Project. However, we are concerned that several areas which are central to the success of the project, mainly procurement and ADP planning and management, still require substantial effort on the part of both PTO and the Department to better support the Automation Project.

SECTION II

AUTOMATION PROJECT ORGANIZATION AND GENERAL MANAGEMENT

Responsibility for planning and executing the Automation Project is ultimately vested in the Automation Administrator who reports to the Assistant Commissioner for Finance and Planning. An organization chart showing the automation activities is at Appendix C.

The Automation Program management structure can be defined as a matrix scheme. Discrete project activities are identified and supported by dedicated staff resources in formal organizations, with project direction being provided by a system of oversight/management boards. This results in tasks being performed at the lowest level in a relatively structured environment, while planning, coordination and program direction is performed by an ad hoc activity consisting of planners, developers and users.

Our interviews with PTO officials, from the hands-on level up through the Commissioner, reveal virtually total commitment to the Automation Project and, perhaps more important, an understanding by everyone concerned of their own role in the Project's development and implementation. The system of ad hoc committees and boards and the organizational matrix in the Automation Office are major contributors to this widespread involvement in and acceptance of the Project's goals.

A description of several key activities shown at Appendix C follows:

- The ADP Coordinating Committee is chaired by the Commissioner. The membership is essentially the senior PTO management team. This Committee acts as the steering group for the Automation Project. Its composition allows an understanding of problems and progress at the top management level as they relate to program interests, enables a uniform application of principles to the project across PTO, and provides a forum for informed decision making on key policies or issues concerning the project.
- Three Configuration Management Boards (Patent, Trademark, and Current Systems) meet frequently to address progress, problems and status of the Project. These Boards are structured to include the Assistant Commissioners and key staff from both the program/user sides and the finance, planning and automation staffs on the "planner/developer" side.
- Several groups of external users of PTO services provide varying degrees of input to PTO regarding the Automation Project:
    - The Public Advisory Committee for Trademark Affairs is formally established as an advisory group. It consists of 15 members. It has met once since October 1984.
    - The National Coordinating Committee is an ad hoc association of bar groups, patent and trademark law associations, and research groups. Individual members of this Committee communicate their concerns and requirements to PTO on subjects affecting their interests.
    - The Ad Hoc Automation Committee meets informally with the PTO to discuss automation of patent operations.

    RECOMMENDATION: Considering the tension which has developed between PTO and its clients, particularly on the trademarks side, the Trademark Advisory Committee should be meeting more frequently to address user concerns.

We also recommend that PTO consider establishing other formal advisory committees to address automation and other areas of concern to user groups.

- The Automation organization consists of five activities under the Office of Automation as shown at Appendix C. This structure differs from the official one described in DOO 30-3; this difference is discussed later.
  - The Program Management Support Staff provides the focal point for life cycle planning, budget and expenditure control, and project review. Some of these mechanisms are discussed below.
  - The Systems Engineering and Technical Support Group consists of in-house computer engineers and contractor personnel from MITRE. The group provides engineering and technical support to all aspects of PTO's automated programs.
  - The Data Base Automation Group administers patent and trademark databases.
  - The Operational Systems Group provides operations and maintenance support services for PTO's existing systems.
  - The Automated Patent System (APS) Group exemplifies PTO's approach to project management in the Automation Project. The Group consists of Automation Staff, permanent detailees from the Patents organization, and contractors working on the project. The structure is designed to integrate working staffs and to focus their efforts on the APS part of the project. A similar group existed for the trademark systems development effort; that group has been disbanded as the trademark system is now considered to be in an operational status.

A major aspect of the Automation Project management is the role of the Configuration Boards vis-a-vis the Automation Office.

- The Configuration Boards are heavily involved in project management activities. The frequency of their meetings (weekly in most cases) and their composition ensures active oversight and direction to the project activities. A review of the Boards' minutes reflects a wide-ranging scope of topics. In effect, the Boards operate as extensions of the formal Automation structure because their deliberations are such an integral part of the management process.

  Because the Assistant Commissioners and the Automation Administrator or their representatives sit as members of the three Boards, the systems users' entree into the working levels and processes of the Automation staff is greatly simplified. Taskings and plans are communicated directly among the users and developers and problems are quickly recognized and addressed. The structure is designed for fast reaction and universal understanding.

  These observations were generally reinforced from our interviews with senior PTO staff. Almost without exception, these officials expressed their support for and satisfaction in the current Board process.

  Problems with the Automation planning activities in the past were identified by officials and employees in the Trademarks area. According to these officials, there was an inadequate understanding of trademark program needs by the Automation staff, even though Trademark examiner attorneys were part of the planning team. As a consequence (or as a contributor to this perception), Trademark officials have felt they were not privy to all the planning and decisions that went into the Trademark Automation effort.

On the other hand, officials outside the Trademark organization indicated that external pressures from public trademark groups have resulted in uncertainty over the requirements for various aspects of the automated trademark system. These pressures and the concomitant problems they generate are acknowledged by Trademark officials as well.

However, they are perceived differently -- Trademarks believes some of their concerns are valid, although perhaps not expressed in useful terms, while officials outside Trademarks view them as obstructionists to the planning and design work. This has caused conflict between the planners and users.

Though it is not yet implemented, the trademark system is in place and being used. Certain system enhancements are being proposed to further improve the system. PTO expects that, if efforts to clean up the trademark data base proceed as planned, all trademark examiners will begin using the system by September. The system will be available to the public sometime thereafter. It is being used now by some examiners on a voluntary basis with the paper files as backup for accuracy checks.

RECOMMENDATION: We recommend that all parties recognize the difference in professional expertise and outlooks among trademark attorneys and computer systems staffs, and accommodate those differences in planning and communicating. Even though the trademark systems development work is essentially completed, operations and maintenance efforts will require continued close working relationships.

Another recommendation is that PTO respond to the problems and suggestions of the trademark users so as to mitigate any Congressional concerns. The problem of communications is complicated by the fact that disarray within the trademark community makes it difficult to receive a consensus of opinion from this important group of users. PTO should continue to solicit input from the trademark associations and attempt to crystalize their concerns.

Overall project monitoring, reporting and control is accomplished by the Program Management Support Staff. These activities are primarily directed at the APS because the trademark system has been shifted to an operational mode. The APS project work is being performed by a contractor (Planning Research Corporation - PRC). The mechanisms discussed below apply only to the APS.

The staff uses the Harvard Program Management System (HPMS) as a primary tool for project monitoring. This system provides PERT-like charts for all activities associated with APS. The system does not include financial data. PTO and PRC have agreed that this system will be replaced by ARTEMIS, a similar system developed by PRC which will include financial data as well. ARTEMIS is scheduled to come on line in September 1985.

The APS Project has approximately 350 discrete tasks which are defined in a newly developed Work Breakdown Structure. This WBS is being integrated with ARTEMIS to give PRC and PTO a common reference system. The WBS will enable detailed tracking of individual tasks in the PRC contract.

We think that these project monitoring and control activities represent a significant attempt on the part of PTO to apply sound practices to the Project. Our quick review indicates that they will prove to be useful and valuable tools in managing the Project. They go a long way toward rectifying criticisms of PTO's project management operation.

As indicated earlier, the Automation Office organization differs from the approved structure. Because of the complexity of the Automation

Project and the need to organize the staff resources around those requirements in the most effective manner possible, PTO implemented internal personnel shifts to result in the existing organization. However, documentation was not submitted to the Department for incorporation into the Organizational Directive because of the possibility that further organizational refinements would be necessary as the Project progressed (in fact, this has occurred with the abolishment of the Trademark Automation Group, counterpart to the APS Group).

This internal shifting of staff into an unofficial configuration has not harmed the Project's management. However, as time passes and vacancies occur in the office, PTO will find that recruiting, promotions and other personnel actions will be difficult because of the lack of formal organizational and functional documentation to back up such actions.

RECOMMENDATION: We recommend that PTO submit a formal organizational proposal to the Office of the Secretary to preclude future adverse effect on personnel matters.

Our findings throughout this report reflect varying degrees of interaction between the Department and PTO in the Automation Project. These include, for example, the MBO process, the budget, information technology and planning program, and the procurement planning program. Normally, these are sufficient to coordinate routine Department requirements and Bureau operations. However, they do not pull specialized activities such as the Automation Project together under a single Department oversight/monitoring umbrella.

RECOMMENDATION: We recommend that a committee be established for the Automation Project with responsibilities similar to those of the 1990 Census Automation Committee. Because of the significant procurement issues involved in the automation project, the General Services Administration should be asked to serve on this Committee. In addition, PTO's Congressional oversight committees should be briefed regularly on the status of the automation project.

SECTION III

AUTOMATION PROJECT PLANNING

In response to Section 9 of Public Law 96-517, PTO developed and submitted to Congress its long-range Automation Master Plan (AMP). This plan was drafted in 1981 under the leadership of the Assistant Commissioner for Finance and Planning in coordination with the internal PTO user community. Several hundred copies of the draft plan were disseminated for review and comment by industry and the public user community. Subsequently, the final plan was approved by both the Department and the Office of Management and Budget, and accepted by Congress in December 1982.

The stated purpose of the plan was to "guide the effort to develop and implement the new automated system needed to support future PTO operations." We believe that the plan provided a good foundation for doing just that. Update documents have been prepared at least annually. Those reviewed were the (1) AMP update of June 26, 1984, (2) automation status reports of August 27, 1984 and March 1985, and (3) PTO's FY 84 Information Technology Plan submitted to the Department on June 29, 1984.

These documents have been accepted for the purposes for which they were prepared. Generally they have served to provide progress reports on the automation effort and to support PTO's budget requests. However, they do not focus on objectives in terms of programmatic needs, but rather in terms of specific resource acquisitions and milestones to be achieved. Nor do they provide an updated cost benefit analysis. In some cases, they do not discuss management issues or problems encountered. Overall, they do not seem to be useful in terms of guiding the automation effort.

A comprehensive update is needed. PTO recognized this and agreed in April to update its Automation Master Plan by July 1985. The plan will be reviewed by the Office of the Secretary and OMB and will affect future PTO budget requests. We believe that the update should address the above issues. More importantly, we believe that development of this update should include a re-examination of the originally stated program goals and objectives and system requirements. Without this, planning may become driven more by automation alternatives rather than by programmatic needs. The following examples were noted:

- A May 29, 1985 preliminary analysis of enhancement options for the trademark system indicated that PTO was considering to acquire a second IBM system and convert TRAM to that environment in conjunction with T-Search. However, we heard during our review that another proposal is to acquire a larger Burroughs system and convert T-Search to it in conjunction with TRAM.
- Some of the system requirements stated in the Automation Master Plan are no longer being pursued. These include the statements that examiner workstations require the capability to display both text and images simultaneously and that the system must provide a means for encryption of classified documents.

We do not believe that the automation decisions being contemplated can be made without validation and agreement on the program objectives and performance requirements.

RECOMMENDATION: We recommend that PTO complete its update to the AMP before making automation selections. The plan update should state the current program objectives, performance requirements, and projected costs and benefits. We further recommend that the plan be formally updated annually and be specifically considered by the Coordinating Committee, the various boards, and the automation group in guiding the automation effort.

The Commerce Information Technology Planning System ensures that Commerce operating units address the requirements of Public Law 89-306 (Brooks bill), OMB, GSA, and GAO policies, directives and recommendations for the management and acquisition of information technology resources.

PTO has annually submitted its plan for Departmental review and endorsement through this System. The 1984 plan, which was endorsed by the Department, treated the automation program as a single concept with multiple automation projects, consistent with the AMP approach.

RECOMMENDATION: To obtain the full benefits of this planning process, we recommend that future plan submissions under this system be disaggregated to provide a fuller discussion of the costs, benefits, alternatives and schedule objectives of the project. Whether this disaggregation should take the form of discrete concepts for Trademarks, Patents, and Management Information Systems or some other structure should be determined in consultation with the Departmental Office of Management and Information Systems.

The type of plans discussed above are intended to guide the automation efforts. The Department's planning process specifies that the overall plans should then be translated into requirements documents which define the functions to be performed and capabilities to be provided. These requirements documents then form the basis for the development and issuance of specifications to industry.

Federal regulations, Department policy and good management practice dictate that requirements documents for automated systems be developed. We noted that PTO has been developing such documents except with regard to Trademarks. These documents are normally prepared under the direction of the automation group working with designated program area personnel. We also noted that public user requirements have been solicited to support the preparation of these functional requirements documents.

With regard to Trademarks, we were informed that a functional requirements document was not developed for the automated trademark search system. Instead, for expediency, a functional system specification was released to industry based on the AMP and an information requirements analysis. Although we were not able to ascertain that the absence of such a document led to any system deficiencies, we believe that PTO (1) did not fully comply with Federal and Department policy and good management practice, (2) introduced an otherwise unnecessary risk, and (3) did not establish a document essential to good communications between the users and the automation support staff.

With regard to the Automated Patent System (APS), which is the major component of the automation effort, we noted that the request for proposals contained appendices identifying both PTO User requirements and APS functional requirements. The APS contractor, PRC, is currently working with PTO to develop detailed functional requirements for each subsystem and task oriented, time phased reporting requirements.

RECOMMENDATION: We recommend that PTO ensure that all future requirements are properly documented and communicated.

We also noted that requirements documents have not been submitted to the Department nor has the requirements approval process established by DAO 212-1 been adhered to. We believe that the Department and PTO share the responsibility for this condition.

RECOMMENDATION: We recommend that the Department's Office of Information Resources Management work closely with PTO to ensure that all future requirements documents are submitted and responded to.

SECTION IV

A PROCUREMENT REVIEW OF PTO'S AUTOMATION EFFORTS

Our review of PTO and Department procurement activities of PTO's automation efforts concluded more effective management was needed. PTO personnel were acting to strengthen the procurement management process by the time our independent review began. However, there are actions the Department and PTO should take to improve the management of these procurements. Specifically:

- o Enhance PTO's procurement planning.
- o Centralize procurement management for the PTO automated systems procurements.
- o Resolve the issues of the Exchange Agreements with Thomson & Thomson and Compu-Mark.
- o Take the actions necessary to gain complete control over the PRC contract for the Automated Patent System.

Scope of Review

We used the GAO report on PTO's Trademark Automation efforts and the NAVELEX audit report on the PRC contract. We also reviewed the Exchange Agreements and the pending solicitations for "buying out" the data base prepared under the agreements with Thomson & Thomson and Compu-Mark. To gain an understanding of the overall automation activity within PTO, we reviewed nineteen contracts and five solicitations (including two for the "buy outs") under the administrative control of the PTO contracts staff. We also reviewed the contract with PRC being administered by the Department.

Our review of the procurement activities related to the PTO automation efforts was limited because of the time constraint on the task force.

We reviewed numerous PTO documents related to PTO's automation programs including automation plans, configuration board meeting minutes, and the like. We interviewed personnel at the Department and the PTO.

Findings and Recommendations

Procurement Planning

PTO submitted a procurement plan for fiscal year 1985 in accordance with Department guidelines contained in Department Administrative Order 208-15. We did not review the information PTO submitted in any great detail. We did note that PTO's Procurement Director indicated that the plan was not complete for FY 85. The plan may address the guidance provided by the Department but it may not be adequate for this complex undertaking.

PTO has not developed an overall plan that would integrate all the procurements for automation. There are contracts, exchenge agreements, and purchase orders that are being issued by the Department and the PTO procurement staffs that may be interrelated or stand alone. There is no single tool that enables procurement personnel to identify potential procurement issues.

An integrated procurement plan would be useful to the program and procurement staffs because it would show in a clear manner the contracts, purchase orders, etc., that need to be placed to support the program's goals. This type of plan should improve communication between the program staff and the procurement staff.

Even in the best of environments, unforeseen contract problems can arise. The complexity of PTO automation efforts has been exacerbated by the split procurement support discussed later. We believe improved planning is an essential element of improved procurement support. We concluded that the present PTO procurement planning must be insufficient since: (a) contract ratifications are used to accomplish program goals; (b) contract extensions are needed to allow time to place either new or follow-on contract awards; and (c) justifications are based on citing a problem in one contract as the basis for extending services under another contract.

RECOMMENDATION: We recommend the Office of the Secretary review the PTO planning process and provide assistance to PTO in developing a procurement plan that provides an integrated approach for all the procurements related to PTO's automation efforts.

Central Procurement Management

We reviewed the contracts and solicitations now being handled by both Department and PTO contracts personnel for PTO's automation efforts. The numerous procurements related to PTO's automation efforts are not handled by a single procurement manager. The procurements are divided between the PTO and Department procurement staffs. PTO's procurement staff began handling PTO procurements above the small purchasing thresholds in October 1984. At that time, PTO began exercising delegated contract authority from the Department through its own Procurement Director and his staff of contract specialists.
Presently, the largest single contract is for the Automated Patents System with PRC under the administrative control of the

Department's procurement staff. Solicitations and pending awards are also in process at the Department's procurement office. On the other hand, PTO's procurement staff is handling a number of active contracts and solicitations related to automation efforts.

We concluded that this is not the most effective way to manage these procurements.

We found procurement personnel were generally unaware of the contracts they were not handling. For instance, PTO procurement personnel are not aware of the specific issues in the PRC contract; however, there is the potential that the PRC contract will be transferred to PTO for administration like many others initially awarded by the Department's procurement staff. The two Exchange Agreements were not treated as procurements based on PTO's policies regarding these types of agreements. The solicitations for the "buy outs" are being handled by PTO procurement personnel under the direction of the PTO staff that placed the initial agreements. The issues surrounding the "buy outs" are numerous and require some study before procurement personnel could be expected to have the necessary level of familiarity to effectively handle these procurements.

The requirements contracted for by both the Department and PTO procurement staffs in support of the automation efforts are complex, long-term, and high-dollar in nature. There is a need for procurement personnel to remain involved on a day-to-day basis in order to provide the most effective procurement support to the PTO program staff. The same is true of the management of the procurement support. Without a comprehensive knowledge of the automation effort, the procurement manager is unable to do the best possible job. Constantly changing requirements in these procurements require an intimate knowledge of the contracts so that sound and timely decisions may be made by the Government.

RECOMMENDATIONS: The team recommended that one procurement manager be designated to oversee support for the PTO automation project. The Assistant Secretary has decided to complete the delegation of procurement authority to PTO, thereby designating one procurement manager to oversee the procurement support for the PTO automation project. We also recommend that Departmental oversight of PTO's procurement processes be strengthened through integrated assessments conducted by budget, ADP, procurement, and management analysis staffs.

Effective management of the numerous contracts now in process goes beyond the procurement organization itself. The support provided by PTO program personnel to monitor cost and progress must be sufficient to avoid contract problems. For example, the present PRC contract is just now establishing schedules and cost monitoring systems to ensure adequate control over PRC performance.

RECOMMENDATIONS: We recommend the Office of the Secretary and PTO review all contracts for the automation effort to ensure that adequate cost and schedule controls are in place. Moreover, we recommend this review address the adequacy of the procurement and program support resources needed to manage these aspects of the contracts.

In a related area, sound contract administration procedures are essential to control the work of the Government's contractors. One part of those procedures is the specific delegation of authority to contracting and program personnel. The program personnel at PTO have exceeded their authority under the PTO contracts a number of times. Their actions have resulted in obligating the Government to pay for actions taken by the contractors at their direction.

The PTO Contracting Officer addressed this matter early in his tenure at PTO. Nonetheless, there are actions under PTO's contracts which are signed by the PTO Contracting Officer on an after-the-fact basis to "ratify" the actions of PTO program personnel. While there are procedures available to give the after-the-fact approval of a contracting official through the process of ratification, these types of approvals require substantial justification; including plans to eliminate the actions in the future, proposed disciplinary actions against those involved, if appropriate, etc. In other words, the ratification process is not designed to allow persons without authority to contractually bind the Government without consequences.

RECOMMENDATIONS: We recommend that the Office of the Secretary and PTO take the actions needed to eliminate the PTO practices that have led to unauthorized actions by PTO program personnel under the PTO contracts. We also recommend that the Office of the Secretary review PTO's procedures on contract administration to ensure they are adequate. Examination of ratification actions should be a part of procurement management reviews conducted in the Department to insure that similar problems do not exist elsewhere.

PTO Exchange Agreements

PTO has two exchange agreements to develop computer tapes from PTO's trademark data for a machine-readable data base. The agreements are with Thomson & Thomson and Compu-Mark.

These agreements provided that the companies would receive from PTO: (a) copies of registered trademarks and application documents (from which tapes were developed); (b) an agreement to provide future trademark data tapes with unlimited restrictions on their use; and (c) assurance that PTO would restrict the public's access to the trademark automated data base using all the capabilities of T-Search.

PTO was in the process of procuring the trademark data from Thomson & Thomson and Compu-Mark through sole source solicitations when we began our review.

Our review of the solicitations issued by PTO's contracts office to Thomson & Thomson and Compu-Mark found that the actions to award contracts to these two companies are on hold awaiting instructions from the Department.

We noted that Thomson & Thomson had not submitted a proposal based on verbal instructions from PTO's management.

Compu-Mark did propose to "sell" PTO the data base developed on data through December 1984. Also, Compu-Mark proposed to continue work for post December 1984 data on the basis of the Exchange Agreement. As structured, Compu-Mark's proposal would not replace the current Exchange Agreement.

We considered all the various legal opinions about the Exchange Agreements and discussed the issues with PTO's Solicitor during our interview. We concluded that the issue of whether or not PTO could use Exchange Agreements as they had was not something we could resolve during our review. If the question is to be addressed, we believe it is a matter for consideration by appropriate Department and PTO personnel.

PTO published written policies on the use of Exchange Agreements in the Federal Register on May 5, 1983. These policies were not reviewed by the Department. We did not review these policies during our review.

Future agreements aside, problems still remain under the two Exchange Agreements that exist. PTO is awaiting guidance from the Department to resolve the issues raised by the GAO report.

Furthermore, the true nature of the contract solicitations for the "buy outs" is unclear to us. If all the contracts do is "buy out" data bases through December 1984, how does that resolve concerns over data beyond that date? Also, how do the "buy outs" address the issue of PTO's restricting the public's access to the trademark automated data base?

RECOMMENDATIONS: We recommend that the Office of the Secretary immediately provide PTO with the advice necessary to remedy the concerns GAO has with the Exchange Agreements -- particularly on the implications of H.R. 2434 over the pending contracts designed to "buy out" the data bases prepared under the exchange agreements. Moreover, we recommend that the Office of the Secretary thoroughly review the actions PTO proposes to take to address those issues. We also recommend the Office of the Secretary review the PTO policies on the use of Exchange Agreements against the criteria in the Grants and Cooperative Agreement Act of 1978.

Contract 50-SAPT-4-00319 with PRC

The PRC contract for the Automated Patent System (APS) was placed in April 1984 on a cost-plus-fixed-fee basis in an estimated amount of $289 million. This contract was awarded by the Department's procurement office which continues to administer the contract for PTO. This is the single largest contract dealing with PTO's automation efforts. PTO expenditures to date are $11.6 million.

A number of actions relating to the technical deliverables and other contract matters were under review by PTO and the Department when we started our review. For example, PTO intends to complete the actions needed to establish definitive cost and schedule controls by September 1985. While there is some progress being made, we believe there is a need to escalate the efforts to complete the actions on all open issues under the PRC contract.

RECOMMENDATION: We recommend that the Office of the Secretary and PTO give their immediate attention to the PRC contract. A joint Office of the Secretary and PTO working group should be formed to completely review all the open issues with PRC management. The issues that require complete resolution include:

- Defining the work PRC is to do under the contract. This should include establishing the contract cost baseline and technical benchmarks on a time phased and task oriented basis.
- Establishing a technical progress/cost incurred reporting system to manage the contract effort.
- Concluding negotiations on the existing PRC change proposals now under review.

PTO should then proceed to bring each issue to conclusion, reporting periodically to the Office of the Secretary.

SECTION V

BUDGET AND FINANCE

The Patent and Trademark Office is a quasi-corporate entity supported by 3,438 employees and financed at over $222 million annually. The funding is provided through an appropriation and by user fees, both of which may be carried over into future years and are available until expended. The fees are authorized by section 1113 of title 15, United States Code, and by sections 41 and 376 of title 35, United States Code. At the present time, fees cover 100 percent of trademark operations and approximately 54 percent of patent operations.

Resources are administered and managed by the Office of the Assistant Commissioner for Finance and Planning, primarily through the Office of Finance, which provides accounting services, and the Office of Budget, Planning and Evaluation, which develops budgets, fees, and management reports.

Our examination of PTO's financial management concentrated on these organizations. Areas of particular interest were as follows:

- o Development of budgets and funding requests.
- o Financial controls over fee collection.
- o Allocation and administration of fees.
- o Validation of overhead charges.
- o Financial reporting.
- o Utilization of accounting data.
- o User problems with fee administration.
- o Department of Commerce oversight of budget process.
- o Actual automation costs versus estimate.
- o Financial monitoring of major automation contracts.
- o Buyout of exchange agreements.

Overall Findings

As a general statement, we found both the budget and accounting shops of PTO to be responsive, well managed, and operating in accordance with all applicable regulations and policy.

Budget development is tightly controlled, well formulated, justified in great detail, and consistent with Departmental, OMB, and Congressional policy and procedures. The budget is prepared and justified on the basis of total funding authority so that review can properly be made of the entire PTO process.

Interviews with Departmental representatives and a reading of the House appropriation hearings indicate that Commerce, OMB and the Congress give full scrutiny to the fee amount and distribution just as they would for appropriated funds.

Internal Controls

In reviewing the internal controls used in the accounting and financial operations of PTO, we built upon recent reports conducted by external authorities as well as those performed during the internal self-certification process. Our investigation was also based on the following:

- o A sampling of the Comptroller General's principles and standards that should be utilized in accounting operations.
- o A selection of questions from the Department of Commerce Cash Management Review.
- o A verification of all recommendations made during the 1984 internal control review of billings and collections.

We found no significant weaknesses in the internal controls as they relate to the accounting and financial operations of PTO.

Some minor observations were brought to the attention of the Director of the Office of Finance and are recorded in our work papers for future reference. One deserves mention here because of the intense scrutiny being placed on the fee system by clients and review authorities. PTO is not currently able to reconcile its cash account with Treasury due to inadequate financial data received from the Department's Management Service Center. This is apparently not a problem unique to PTO, but is of concern to several other agencies within Commerce as well.

RECOMMENDATION: The Department should take immediate steps to provide adequate data, through its Management Service Center, for PTO and other agencies within Commerce to reconcile their cash accounts.

Utilization of Accounting Data

During our review, we examined the extent to which accounting and financial data available in the Office of Finance was utilized in the decisionmaking process, especially as it related to the observations raised by GAO and by Congressman Brooks' staff.

When the cost and benefits study was prepared, the only input from the Office of Finance was the regular monthly financial reports. There were no special requests for additional information either in terms of detail or special configurations, even though raw data was available. Furthermore, if the Office of Finance had conducted monthly reviews of the income and cost trends and compared them with interim milestones from the cost/benefit study, indications of variance could have been provided to PTO managers throughout the development of the Automation Project.

This leads us to believe that the PTO accounting data are not being used effectively. We recommend that PTO develop a series of business-style reports that adequately address income. In response to our concerns, and because of their willingness to provide whatever data is needed for management or oversight of the agency, both the Office of Finance and the Office of Budget have agreed to do so.

Fees

The fees charged to the public for patent and trademark examination and for information services are consistent with standing law and are allocated in the manner approved by OMB and the Congressional Appropriation Committees.

We did note that legislation is pending (HR 2434, passed by the House on June 25, 1985) which could substantially impact upon PTO operations. It provides that "fees collected... may not be used during fiscal years 1986, 1987, and 1988 to procure ... automatic data processing resources (including hardware, software and related services, and machine readable data) for the Patent and Trademark Office." We believe that the question of fee application, especially as it relates to ADP, is an issue of primary importance to PTO and its users and one that must be firmly and finally resolved if PTO is to continue its progress towards automation. We also are aware that the Department, through the Assistant Secretary for Administration and the Assistant Secretary for Congressional and Intergovernmental Affairs, is working with the Congress to clarify this matter.

Once fees are collected, they are merged with appropriated funds to form the actual budgets apportioned to each area and office. Based on the financial data provided to them by the budget shop, PTO office directors do not have the ability to distinguish which of their expenses are financed by fees and which are financed by subsidy (appropriation). It is the opinion of the PTO Budget Office that this information is not needed for the sound internal management of the PTO programs.

We do not agree on this point. PTO is a long-standing Government agency at the crossroads in its conversion to an entity more corporate-like in its operations. It expects to be substantially fee supported at some time in the future. As a result of this, clients, who correctly perceive of themselves as paying the bill, are demanding a greater role in the financing and operations of the organization. The lack of business data on fee dissemination, in a format easily understood by business, is a necessary service for them that should not be denied by PTO.

External users, primarily the trademark associations, have complained about the adequacy of PTO financial reports. We feel that their concerns are somewhat justified, since the reports currently being provided are difficult to understand for those not schooled in Government accounting and budget terminology and familiar with PTO operations and policies. No reports exist in the formats standard to the business community.

Furthermore, the perception that PTO executives do not need the data for their management of the agency does not give proper weight or sensitivity to their business clients' concerns or to the changing nature of PTO. The estimated fee income for FY 1985 is $102 million, which represents just under 46 percent of the operating budget. Yet the financial statements issued monthly do not include a comparison of income and expenses. Managers are not able to determine whether services provided are contributing their cost of operation, whether users of one service are in fact paying more than their fair share and thereby subsidizing other services, or whether fees collected cover the entire cost of doing business, including a share of overhead. As in private industry, PTO managers, unlike most Government agencies, must concern themselves with the bottom line.

Fortunately, PTO would not have to conduct any significant additional data gathering efforts in order to address this issue. The agency has the capacity to convert current in-house data into standard business formats. (To their credit the PTO Budget office has requested that trade associations propose alternative financial reports, but to date there has been no response to this request.) In fact, there is considerable information available through the PTO accounting system which could be utilized as desired throughout the entire PTO management system as well as for their outside clients.

We have developed a report format (see Appendix D) which provides basic fee data in a business-style format and which can be prepared monthly using information currently available in the accounting system.

RECOMMENDATION: In recognition of its quasi-corporate role and the increasing demands placed on organizational accountability by patent and trademark clients, PTO should begin preparation of monthly statements on income and expenses in standard business formats. These reports should be disseminated to PTO managers and made available on request to external users. PTO should also develop annual profit and loss statements and any other business-type reports which are appropriate to its operations.

A second area of concern to corporate clients is the perception of co-mingling of funds, i.e., fee receipts and appropriations merged into a larger entity, with no clear accounting of their use. P.L. 97-247 recognized this in the trademark area and prohibited use of trademark fees for any but trademark uses. Because of this concern, we examined accounting records and work papers to determine whether co-mingling had occurred. We are satisfied that it has not occurred. Nevertheless, it is possible to do so within the existing system. The law protects the integrity of the trademark fees; there is no such protection for patent or service fees. It is only the integrity of the Budget and Finance shops which act as safeguard. To their credit, these offices have diligently prepared reprogramming notices to the Congress whenever changes in financing were made necessary, and trademark fees have not been used for any purposes outside of the trademark area. But no internal PTO policies exist on the application of excess fees collected. More importantly, there is no policy stating what cannot be done with them.

RECOMMENDATION: PTO should develop formal internal policies on fees which address shortages, surpluses, permissable uses, prohibited uses, and accountability. In addition, plans should be developed whenever surpluses occur detailing how and to what purpose they are to be applied. Because of the sensitivity of this issue, the policies and plans should be developed with client and Congressional input.

A third area of concern to trademark clients is the overhead rate charged them for indirect automation costs -- 25.2%, compared to their share of the total PTO costs of only 8.2%. Despite this concern, PTO did not revalidate the charge after its original development several years ago. The PTO did provide detailed information to trademark associations on the distribution of the fees, but not on the derivation of the formula itself. The assumptions upon which it was based came from estimates at the time of development. In preparing the new fee schedules for FY 1986 through FY 1988, PTO determined that the Trademark share for these costs should be dropped to 15.7 percent in 1986 and to 7.8 percent in 1987.

RECOMMENDATION: PTO should provide for annual validation of the overhead rate beginning in FY 1986.

Automation Costs

Actual costs of automation for the period FY 1983 through 1985 are higher than the original estimates stated in the Automation Master Plan and subsequent budget documents, as follows:

	(dollars in millions)			
	FY 1983	FY 1984	FY 1985	3 Year Total
Automation Plan *...	$ 14.1	$ 14.9	$ 30.8	$ 59.8
Actual/Projected ...	12.6	21.8	30.8	65.2
Difference	$ 1.5	$ -6.9	$ ----	$ -5.4
Financed by:				
Carryover.........	1.0	----	----	1.0
Reprogramming.....	----	4.4	----	4.4

* As revised and reflected in the FY 1986 budget submission to the Congress.

The T-Search trademark automation system is in place and being used, but it cannot be fully relied upon and is difficult to evaluate in the absence of an adequate data base. PTO hopes that the data base can be cleaned up enough to use by September 1985. With implementation behind schedule, total costs of automation will probably be over estimate. However, the exact amount of overage, if any, cannot be determined, since there is no clear linkage of cost baselines with progress baselines.

It is our understanding that the revised master automation plan, due to be completed in July 1985, will begin to address and correct the lack of a cost baseline integrated with progress schedules. PTO is currently developing a technical progress/cost incurred reporting system for its management of the PRC contract, which we consider to be appropriate since it is the largest contract related to the automation.

RECOMMENDATION: Once the revised Automation Master Plan is developed by PTO and approved by the Office of the Secretary and the PRC progress/cost system is developed, we recommend that PTO pull together a detailed document integrating all technical issues, schedules and costs related to the entire automation effort.

SECTION VI

SUMMARY OF RECOMMENDATIONS

1. The Trademark Advisory Committee should be meeting more frequently to address user concerns. (page 4)

2. PTO should consider establishing other formal advisory committees to address automation and other areas of concern to user groups. (page 4)

3. We recommend that all parties recognize the difference in professional expertise and outlooks among trademark attorneys and computer systems staffs, and accommodate those differences in planning and communicating. (page 6)

4. PTO should take action to deal with the problems and suggestions of the trademark users and attempt to crystalize the concerns of the trademark associations. (page 6)

5. We recommend that PTO submit a formal organizational proposal for the Automation Staff to the Office of the Secretary to preclude future adverse effect on personnel matters. (page 7)

6. We recommend that a committee be established for the Automation Project with responsibilities similar to those of the 1990 Census Automation Committee. (page 7)

7. PTO should complete its update to the Automation Master Plan before making automation selections. The plan should state the current program objectives, performance requirements, and projected costs and benefits. We further recommend that the plan be updated annually and be specifically considered by the Coordinating Committee, the various boards, and the automation group to guide the automation effort. (page 9)

8. Future plan submissions under the AMP should be disaggregated to provide a fuller discussion of the costs, benefits, alternatives and scheduled objectives of the project. (page 9)

9. PTO should ensure that all future systems requirements are properly documented and communicated. (page 10)

10. We recommend that the Department's Office of Information Resources Management work closely with PTO to ensure that all future requirements documents are submitted and responded to. (page 10)

11. We recommend that the Office of the Secretary review the PTO procurement planning process and provide assistance to PTO in developing a procurement plan that provides an integrated approach for all the procurements related to PTO's automation effort. (page 12)

12. The Office of the Secretary should designate one procurement manager to oversee the procurement support for the PTO automation effort. Departmental oversight should be strengthened. (page 13)

13. The Office of the Secretary and PTO should review all PTO contracts for the automation effort to ensure that adequate cost and schedule controls are in place. We also recommend that this review address the adequacy of the procurement and program support resources needed to manage these aspects of the contracts. (page 14)

14. The Office of the Secretary and PTO should take the actions needed to eliminate the PTO practices that have led to unauthorized actions by PTO program personnel under the PTO contracts. We also recommend that the Office of the Secretary review PTO's procedures on contract administration to ensure they are adequate. (page 14)

15. The Office of the Secretary should immediately provide PTO with the advice necessary to remedy the concerns GAO has with the Exchange Agreements and the implications of H.R. 2434. We also recommend that the Department thoroughly review the actions PTO proposes to take to address those issues. The Office of the Secretary should review PTO policies on the use of Exchange Agreements against the criteria in the Grants and Cooperative Agreements Act of 1978. (page 16)

16. We recommend that the Office of the Secretary and PTO give their immediate attention to the PRC contract. A joint Office of the Secretary/PTO working group should be formed to completely review all the open issues with PRC management. These include: (page 16)

- o Defining the work PRC is to do under contract. This should include establishing the contract cost baseline and technical benchmarks on a time phased and task oriented basis.
- o Establishing a technical progress/cost incurred reporting system to manage the contract effort.
- o Concluding negotiations on the existing PRC change proposals now under review.

PTO should then proceed to bring each issue to conclusion, reporting periodically to the Office of the Secretary. (page 16)

17. The Department should take immediate steps to provide adequate data, through the Management Service Center, to allow PTO and other agencies within Commerce to reconcile their cash accounts. (page 18)

18. PTO should begin preparation of monthly statements on income and expenses in standard business formats. These reports should be disseminated to PTO managers and made available on request to external users. PTO should also develop annual profit and loss statements and any other business-type reports which are appropriate to its operations. (page 21)

19. PTO should develop formal internal policies on fees and develop plans, whenever surpluses occur, detailing how and to what purpose they are to be applied. These policies and plans should be developed with client and Congressional input. (page 21)

20. PTO should provide for annual validation of the overhead rate beginning in FY 1986. (page 22)

21. Once the revised Automation Master Plan is developed by PTO and approved by the Office of the Secretary and the PRC progress/cost control system is developed, PTO should pull togeher a detailed document integrating all technical issues, schedules and costs related to the entire automation effort. (page 22)

APPENDIX A

MANAGEMENT REVIEW OF PATENT AND TRADEMARK OFFICE

STUDY OUTLINE

Organization and Management:

- Planning (review planning process that resulted in Master Plan and process of maintaining current plans. This will be a crosscutting topic involving budget, procurement and ADP).
- Organizational relationships among ADP managers, Automation Project managers, top PTO management and program managers. Will include review of communications, coordination and decision processes.
- Staffing (adequacy of numbers and skills, recruiting/hiring process, grade structure).

Budget:

- Review cost benefit analysis methodology.
- Examine adequacy of budget process to plan and control Automation Project.

Accounting and Finance:

- Review internal controls used in PTO.
- Examine the process for collection and administration of fees.

Technology Requirements Development:

- Review planning, requirments and specifications processes.
- Determine baseline for user needs.

Systems Specifications:

- Examine question of competitiveness.
- Review testing processes.

Procurement:

- Review procurement management structure (will include activities of the Department Office of Procurement Operations).
- Perform compliance review of procurement activities.

Barter Arrangements:

- Review basis for agreements, determination of their not being treated as procurements.
- Review management process.

APPENDIX B

LIST OF INTERVIEWEES

Patent and Trademark Office

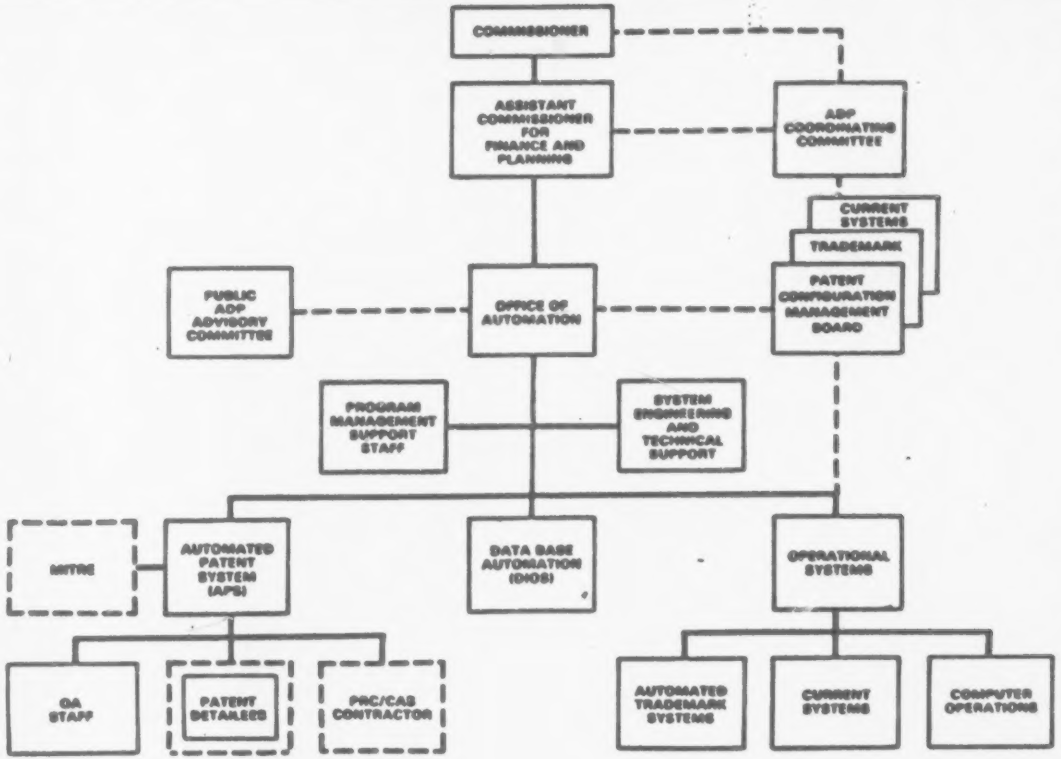
Donald J. Quigg, Commissioner
Jon Baake, Deputy Administrator for Automation
Marc Bergman, Director, Office of Trademark Program Analysis
Willy Bowman, Chief, Correspondence and Mail Division
Theresa Brelsford, Assistant Commissioner for Administration
Barry Brown, Director, Office of Procurement
Howard Bryant, Administrator for Automation
Carla Buczinski, Contract Specialist
Frank Ceasar, Director, Office of Patent and Trademark Services
William Eldridge, Contract Specialist
Jack Ell, Deputy Director of Finance
Tom Gass, Supervisory Operating Accountant
Wesley Gewehr, Deputy Assistant Commissioner for Administration
John Hassett, Director, Office of General Services
Bradford Huther, Assistant Commissioner for Finance and Planning
Frank Lane, Supervisory Financial Assistant
Margaret Laurence, Assistant Commissioner for Trademarks
James Lynch, Director, Office of Budget, Planning and Evaluation
William Maykrantz, Director, Office of ADP
Frances Michalkewicz, Special Asistant to A/C for Fin. & Plng.
Leonard Nahme, Director, Office of Finance
Joseph Nakamura, Solicitor
Anice Ogden, Contract Specialist
Jerome Punderson, Program Analyst
Joseph Shehade, Chief, Program Management Support Staff
Rene Tegtmeyer, Assistant Commissioner for Patents

Other

Hugh Brennan, Director for Procurement and Administrative Services
Mary Casey, Auditor, Office of the Inspector General
Michael Kean, Chief, Information Resources Procurement Division
David Larkin, Directior, Office of Procurement Operations
Elaine McNamara, Budget Analyst, Office of Budget
John Newell, Assistant Inspector General for Automated Information Systems
Tom Pyke, Head, ICST Review Team
Rick Skinner, Director, External Audit Division, OIG
Gloria Sochon, Contract Specialist, Office of Procurement Operations
Robert Welch, Director, Office of Procurement Management

APPENDIX C

APS Organization for Program Management


COMMISSIONER
ASSISTANT COMMISSIONER FOR FINANCE AND PLANNING
ADP COORDINATING COMMITTEE
CURRENT SYSTEMS
TRADEMARK
PATENT CONFIGURATION MANAGEMENT BOARD
PUBLIC ADP ADVISORY COMMITTEE
OFFICE OF AUTOMATION
PROGRAM MANAGEMENT SUPPORT STAFF
SYSTEM ENGINEERING AND TECHNICAL SUPPORT
MITRE
AUTOMATED PATENT SYSTEM (APS)
DATA BASE AUTOMATION (DIOS)
OPERATIONAL SYSTEMS
QA STAFF
PATENT DETAILEES
PRC/CAS CONTRACTOR
AUTOMATED TRADEMARK SYSTEMS
CURRENT SYSTEMS
COMPUTER OPERATIONS

APPENDIX D

Patent and Trademark Office
Statement of Income and Expenses
Fee Period Ended__________

	Patent Process		Trademark Process		Other Services		Total	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
Income								
Expenses:								
Direct Personnel Compensation								
Other Direct								
Total Direct Expenses								
Indirect Expenses								
Automation Expenses								
Total Expenses								
Excess Income over Expenses								

PATENT AND TRADEMARK AUTOMATION REVIEW

REPORT ON TRADEMARK AUTOMATION

JULY 9, 1985

INSTITUTE FOR COMPUTER SCIENCES AND TECHNOLOGY
NATIONAL BUREAU OF STANDARDS
U. S. DEPARTMENT OF COMMERCE

Summary of Findings and Recommendations on Trademark Automation

TRAM STATUS

FINDING:

O The TRAM system is in operational use.

T-SEARCH STATUS

FINDING:

O The T-Search Trademark Search System is in place and being used voluntarily by more than half of the Trademark examiners. The examiners interviewed believe that this automated system already provides better quality searching for word marks than previously used manual search techniques.

SYSTEM PERFORMANCE

FINDINGS:

O Questions have been raised concerning the level of performance of the T-Search system in response to a realistic workload that includes both examiners and public searchers as users, and especially about the system's performance for design mark searches.

O The TRAM trademark automation system suffers from poor response time and somewhat limited availability.

RECOMMENDATIONS:

O An external performance audit of the T-Search system should be conducted by an organization such as FEDSIM. The audit should include performance measurement under realistic controlled load conditions. Software and hardware system bottlenecks should be identified and documented. The audit should result in specific recommendations for improving system performance and provide a baseline for evaluating possible system upgrades.

O The results of recent TRAM/PALM system performance testing by the hardware vendor should be evaluated in detail. More extensive, independent testing and evaluation should be performed if necessary. This testing should provide a basis to improve the present system through elimination of hardware and software bottlenecks, and should also provide a baseline for consideration of possible major system upgrade.

REQUIREMENTS ANALYSIS

FINDINGS:

O A single integrated functional requirements documentation was not developed for trademark automation.

O Continuing development of revised trademark automation requirements is proceeding on an ad hoc basis.

O The risks associated with various system failure modes and the risks associated with assuring the integrity of data in the trademark automated systems have not been analyzed in a structured manner.

RECOMMENDATIONS:

O An integrated trademark automation requirements analysis should be performed and documented. The resulting document should then be used, along with a detailed summary of the functionality and performance of currently installed systems, as input to a thorough identification and analysis of system alternatives. This analysis should be completed prior to development of specifications for any major improvements or upgrades to current trademark automation systems.

O A continuing process, perhaps involving the existing Trademark Configuration Management Board, should be established for developing and documenting evolving requirements for trademark automation and for incorporating these changing requirements into the systems development and support process on a controlled basis.

O A risk assessment should be performed that addresses requirements and threats relative to data integrity and system availability. This assessment should consider possible risks through public access to the system as well as use by examiners, and should cover both accidental as well as intentional data loss or system failure. It should lead to identification of failure modes and contingency plans for recovery from system failures or loss of data. This assessment will be a key input to the analysis of system alternatives for improving trademark automation systems.

O A plan should be developed and implemented for measuring the effect of automation on the quality of the trademark search/registration process.

DATA QUALITY

FINDING:

- O Word mark data still has a number of errors, but a plan is in place and is being carried out to correct them. However, the word mark data is said by some examiners to be generally better than that available to support manual searches.
- O Design mark data has many errors. Initial sampling and analyses have been performed. A plan to correct the errors is being developed.
- O Image data to support design mark searches is not of acceptable quality. Complete rescanning of original images may be necessary to produce an acceptable database.

RECOMMENDATION:

- O The corrective actions already being taken should be continued.
- O A plan for continuing assurance of adequate data quality for trademark automation should be developed and followed.

REPORT ON TRADEMARK AUTOMATION

July 9, 1985

BACKGROUND

The Institute for Computer Sciences and Technology (ICST) of the National Bureau of Standards has reviewed the technical aspects of trademark automation within the Patent and Trademark Office (PTO). This review is a part of an overall technical evaluation by ICST of PTO's Trademark and Patent Automation Project which is being conducted at the request of the Deputy Secretary of Commerce as a positive step toward reaching the Secretary of Commerce's goal of a fully automated Patent and Trademark Office.

The goal of the trademark automation review is to assess objectively and independently whether trademark automation efforts are meeting established objectives. Within the constraints of the tight time schedule established by the Department for the review, a number of findings and recommendations concerning trademark automation have been developed and are summarized in this report.

APPROACH

The ICST review team received an overview presentation on patent and trademark automation and a tour of PTO. A large number of PTO documents concerning automation planning and implementation have been reviewed (see Appendix), along with the April 1985 GAO report on trademark automation, pertinent legislation and committee reports, and minutes of PTO MBO reviews for the Department. The ICST team members met with the Acting Commissioner, the Assistant Commissioner for Trademarks, and the Assistant Commissioner for Finance and Planning. Several meetings were held with the Administrator for Automation and members of his staff. Selected trademark examiners and trademark staff knowledgeable about trademark automation were interviewed. Meetings were also held with the staff of the MITRE Corporation, which provided systems engineering support, and with GAO staff responsible for their trademark automation audit.

TRADEMARK AUTOMATION

The objectives of trademark automation, summarized in the Automation Master Plan, are:

1. to improve the quality of the issuing registrations,
2. to assist in reduction of average pendency of applications, and
3. to reduce the total cost of the Trademark operation.

The Automation Master Plan states that the improvement in the quality of the issuing registrations is to be achieved by ensuring that correct and complete information is entered initially into the system. Although the trademark automation effort is directed toward all three of these objectives, the ICST team was told that the emphasis in the automation process is on improving search quality, and thus improving the quality of the issuing registrations.

Various aspects of trademark operations are supported by two major automated systems:

1. Trademark Report and Monitoring System (TRAM)
2. Trademark Search System (T-Search)

The next section of this report summarizes the current status and function of these systems. The final three sections of this report summarize findings and recommendations in three problem areas identified during the review: system performance, requirements analysis, and data quality.

TRAM STATUS

FINDING:

O The TRAM system is in operational use.

TRAM is used to track the movement and status of trademark application folders from pre-examination, through publication in the Official Gazette, to registration or abandonment. Bar code readers are used at workstations to assist in the entry, modification, and retrieval of application data.

Some of the functions performed by TRAM are keyboard entry of textual application data, document control and tracking, status information, accumulation of performance statistics of examining attorneys, and management reporting for performance and quality assurance. TRAM provides a weekly tape of textual data to be published in the Official Gazette. TRAM also provides a weekly tape of updates for the separate search database in the T-Search system.

The TRAM software was written in-house, and runs on a Burroughs B7700 computer that is shared with a similar application system (PALM) that supports the patent examination process. TRAM is written in COBOL, using the DMS II database management system and the GEMCOS transaction processor.

Trademark examining attorneys who were interviewed give credit to TRAM for their ability to locate application folders quickly and easily. They also view TRAM as a potential tool for managing a quality assurance program.

T-SEARCH STATUS

FINDING:

O The T-Search Trademark Search System is in place and being used voluntarily by more than half of the Trademark examiners. The examiners interviewed believe that this automated system already provides better quality searching for word marks than previously used manual search techniques.

T-Search is an automated search system that permits examiners and public searchers to compare a pending word mark or design mark application against a database of existing registered trademarks. It runs on an IBM 4341 mainframe, and was provided to PTO under contract by the Systems Development Corporation (SDC). T-Search provides the capability for an examiner at a terminal to search for word marks and design marks using combinations of almost all of the fields in a trademark registration. Design facsimilies are displayed on the same terminal.

Design searches are based on queries against a hierarchical classification scheme with codes for design components or features. A video display screen of textual description of an application can be alternated with a screen containing the corresponding design facsimile; however, there is no split screen or simultaneous display capability. The textual part of the T-Search database largely duplicates TRAM data (from which it is extracted); however, it does not contain all the status information from TRAM which is needed by searchers. A separate terminal, often in a different location, must be used to access TRAM for that information. The public search room is equipped with terminals for searching, but these terminals have not been used, except by PTO staff during T-Search acceptance testing.

T-Search is based on SDC's proprietary ORBIT inverted-file search system. The T-Search system includes interface software on the B-22 microcomputer-based terminal/workstations, as well as an integrated subsystem on the mainframe to retrieve compressed digitized images for transmission to the workstations. Continued software development and maintenance are provided under contract by SDC.

The ICST team interviewed several examining attorneys who used T-Search on a regular basis. The consensus of these attorneys was that the automated system is better than a manual search for word marks. Advantages cited were:

O Data integrity is better (or potentially better) since records are not missing or misfiled, as in the public search room.

O Only one search is necessary, as compared to a manual search through the separate files for pending applications and registered marks.

O Quality review is facilitated by the automatic printout of the search strategy, along with the search results.

O It is possible to search on any of the different fields. This has the effect of creating numerous indices into the database.

- O The use of Boolean operators can be used to restrict the search to fewer documents of greater interest.
- O The working conditions at a terminal near the examiner's office are better than those in the public search room.

SYSTEM PERFORMANCE

FINDINGS:

- O Questions have been raised concerning the level of performance of the T-Search system in response to a realistic workload that includes both examiners and public searchers as users, and especially about the system's performance for design mark searches.
- O The TRAM trademark automation system suffers from poor response time and somewhat limited availability.

RECOMMENDATIONS:

- O An external performance audit of the T-Search system should be conducted by an organization such as FEDSIM. The audit should include performance measurement under realistic controlled load conditions. Software and hardware system bottlenecks should be identified and documented. The audit should result in specific recommendations for improving system performance and provide a baseline for evaluating possible system upgrades.
- O The results of recent TRAM/PALM system performance testing by the hardware vendor should be evaluated in detail. More extensive, independent testing and evaluation should be performed if necessary. This testing should provide a basis to improve the present system through elimination of hardware and software bottlenecks, and should also provide a baseline for consideration of possible major system upgrade.

The T-Search system has undergone several rounds of performance testing. There have been questions raised about the level of performance of the system in response to a realistic workload. One such statement of concern is contained in the Interim Report of Functional Acceptance Test of Automated Trademark Search System, dated December 1984, which states that the "average completion time of a trademark search exceeded the contractual requirement." Although performance has been improved, the problem has been especially acute when performing design searches. Trademark operations staff have told the ICST team that response time degrades to totally unacceptable with only six design searches being performed concurrently.

Both PTO and SDC have expended considerable resources in testing various versions of the T-Search system. One major performance related problem that result in terminals being "hung up" until a new log-on is performed has has been partially resolved, but at the expense of reducing overall system performance. Most recently, additional main memory has been added to the IBM 4341 mainframe, and performance is reported to have improved significantly.

These performance problems have been so persistent over a period of several months, and their resolution is so essential to the successful use of the system, that ICST recommends that an external performance audit be conducted as soon as possible by an organization such as FEDSIM. During this audit, controlled load should be applied to T-Search that is representative of the projected workload from examiners and public searchers. Software and hardware bottlenecks should be identified and documented. The performance audit process should result in specific recommendations for improving T-Search system performance and provide a baseline for long term capacity planning for T-Search on the current hardware configuration and for evaluating possible system upgrades.

The TRAM system has performance problems in terms of both response time and availability. The Administrator for Automation told the ICST team the TRAM system is typically up about 95 percent of its scheduled time as contrasted to about 98 percent for the T-Search system. He said that the TRAM system experiences some periods of sustained outage. The reliability of disk drives on the Burroughs B7700 system was among the problems cited that contribute to the problems. Members of the team observed response times as long as a minute or more to simply acknowledge input from a wand type bar code reader.

The performance problems for the Burroughs B7700 system that supports both TRAM and the comparable PALM functions for patent examination have existed for some time. Improvements in hardware have been made, and PTO has recently had Burroughs conduct additional system performance tests. PTO is now awaiting the results from Burroughs of that performance testing.

Since the vendor that has performed these tests stands to benefit potentially from the results of these tests, the results of the tests should be reviewed carefully by PTO staff and compared to other, collaborative records of system performance. If indicated, more extensive independent testing and evaluation should be performed.

The results of this TRAM performance evaluation should provide a basis to improve the performance of the present system through possible elimination of hardware or software system performance bottlenecks, and also provide a baseline for consideration of a possible major system upgrade.

REQUIREMENTS ANALYSIS

FINDINGS:

- O A single integrated functional requirements documentation was not developed for trademark automation.
- O Continuing development of revised trademark automation requirements is proceeding on an ad hoc basis.
- O The risks associated with various system failure modes and the risks associated with assuring the integrity of data in the trademark automated systems have not been analyzed in a structured manner.

RECOMMENDATIONS:

- O An integrated trademark automation requirements analysis should be performed and documented. The resulting document should then be used, along with a detailed summary of the functionality and performance of currently installed systems, as input to a thorough identification and analysis of system alternatives. This analysis should be completed prior to development of specifications for any major improvements or upgrades to current trademark automation systems.

- O A continuing process, perhaps involving the existing Trademark Configuration Management Board, should be established for developing and documenting evolving requirements for trademark automation and for incorporating these changing requirements into the systems development and support process on a controlled basis.

- O A risk assessment should be performed that addresses requirements and threats relative to data integrity and system availability. This assessment should consider possible risks through public access to the system as well as use by examiners, and should cover both accidental as well as intentional data loss or system failure. It should lead to identification of failure modes and contingency plans for recovery from system failures or loss of data. This assessment will be a key input to the analysis of system alternatives for improving trademark automation systems.

- O A plan should be developed and implemented for measuring the effect of automation on the quality of the trademark search/registration process.

As the review team began its examination of trademark automation, it had difficulty identifying the functional requirements that led to trademark automation. It was quickly determined that planning for trademark automation was accomplished in piecemeal fashion, without benefit of an overall functional requirements document or a data requirements document. A functional requirements document was not prepared for the T-Search system. Although taking the "shortcut" of not preparing such documentation may lead to systems that satisfy the majority of unstated user requirements for which these systems were designed, it is difficult to evaluate automation implementation without a coherent set of documentation which ties current automation efforts to trademark functions and goals.

The team was referred to the PTO Automation Master Plan and to the RFP for the T-Search system. That RFP contains functional technical specifications. The team was also referred to the test plan for the T-Search system. For the TRAM system, some user requirements documentation is available.

One purpose of an orderly, disciplined approach in systems engineering is to serve as a basis for agreement with users upon completion of an automation activity. Functional and data requirements documentation can minimize and control problems, such as the need for numerous change proposals, redundant/inconsistent data, poor data quality, lack of integration of functions, and inadequate performance. These problems have been encountered during trademark automation.

During the course of the review, various needed improvements to trademark automation were identified by PTO staff. The USTA Trademark Talk/Systems Options paper dated May 29, 1985, identifies requirements for improved response time and availability, implementation of a trademark assignment system, and improved word processing techniques. A Trademark Configuration Management Board (TCMB) was established in 1984 to review trademark automation plans and implementation, including "identifying areas where modifications or enhancements to the system will benefit the users," and reviewing "proposed hardware/software changes." However, based on memoranda provided to the team and interviews with PTO officials, requirements development and analysis for improved trademark automation has been continuing on an ad hoc basis.

There is no doubt that progress is being made in improving the operation of existing automated trademark systems through the TCMB and continuing interactions among PTO officials. However, especially since major enhancements and potential major systems changes necessary to accomplish integration of functions are being discussed, it is recommended that time now be taken to perform an integrated trademark automation requirements analysis and to document the results of that analysis. Since much work has already been done that would contribute toward such a document, this analysis should be able to be completed with less effort and in a shorter period of time than if PTO were starting from scratch. PTO now has the advantage of trademark examiners and officials having a good feel of what automated searching as well as automated management and reporting can actually do. This should make it easier to develop and document the overall requirements for trademark automation.

Closely related to this requirements analysis, and as a part of the subsequent evaluation of system alternatives, a formal risk assessment should be performed that addresses requirements and threats relative to data integrity and system availability. ATthough there has been consideration of data integrity and system availability in the planning and implementation of existing trademark automated systems, there has not yet been a structured analysis of the risks associated with accidental or intentional data loss or systems failure, including the risks inherent in public access to the system. This risk assessment should lead to an identification of failure modes and contingency plans for recovery from system failures or loss of data. The assessment will provide a basis for evaluating the cost of providing various degrees of protection against loss of data and the cost of achieving alternative levels of system availability.

With the results of the performance analyses of T-Search and the TRAM/PALM system in hand, coupled with a current overall requirements analysis, it will then be possible to identify and analyze system alternatives for upgrading and/or integrating systems to meet current requirements. The results of this alternatives analysis should be completed prior to development of specifications for any major improvements or upgrades to current trademark automation systems.

Once the overall trademark automation requirements have been documented, then a continuing process, perhaps involving the existing Trademark Configuration Management Board, should be established for developing and documenting evolving requirements for trademark automation and for incorporating these changing requirements into the systems development and support process on a controlled basis. This will allow system improvement to proceed on a more orderly basis, with engineering changes or other system modifications made and packaged in such a way as to minimize cost and disruption of service from the automated systems.

So as to guide the requirements development and analysis process and future improvements to trademark automation systems, it is important to relate the effect of introducing automation to the originally stated objectives. A specific example which should be readily amenable to measurement of improvement due to automation is to develop a plan to evaluate the improvement in quality of trademark searching using automated methods as compared to manual methods. A statistically valid sample of applications can be processed using both methods, with knowledgeable individuals evaluating the results without knowing in each case whether the result was from an automated or manual search. Ideally, this process should be extended to measuring the improvement in quality of the overall trademark registration process, since that ties most closely with the stated objective. However, since it has been stated that improving search quality will result in improving the registration quality, a plan to measure the improvement in the quality of the trademark search process should go a long way toward measuring accomplishment of this objective.

DATA QUALITY

FINDING:

- O Word mark data still has a number of errors, but a plan is in place and is being carried out to correct them. However, the word mark data is said by some examiners to be generally better than that available to support manual searches.
- O Design mark data has many errors. Initial sampling and analyses have been performed. A plan to correct the errors is being developed.
- O Image data to support design mark searches is not of acceptable quality. Complete rescanning of original images may be necessary to produce an acceptable database.

RECOMMENDATION:

- O The corrective actions already being taken should be continued.
- O A plan for continuing assurance of adequate data quality for trademark automation should be developed and followed.

Although the T-Search system is operational and is used voluntarily by more than half of the examining attorneys, problems with data quality reduce its effectiveness. For a variety of reasons, traceable mostly to the initial entry of data keyed from error-prone and incomplete paper records, a number of data errors and inconsistencies exist.

The data quality problem is, to some extent, self-correcting over time. The "registration page" from the Official Gazette is one accepted authority. TRAM is the authority for record status. For new registrations, text to be printed in the Official Gazette is derived directly from TRAM, from which data is extracted as input to the T-Search system. The current errors in the T-Search textual data do not permit the printing of this data for unqualified distribution to the public at the present time.

A plan is in place and is being carried out to correct the word mark data. Even with the word mark data in its present condition, the examiners who were interviewed felt that the word mark database is generally better than that available to support manual searches.

The design mark data has many errors. A plan to correct the errors is being developed based on initial sampling and analyses. Although technically not considered as errors, queries on design codes frequently yield too many hits, due in part to the "over coding" of design marks, i.e., even trivial features were assigned codes. Improvements in this aspect of the design mark data are underway that could result in significant performance improvement for the overall system.

The image data that is used to support design mark searches is not of acceptable quality for publication support. The team was told that complete rescanning of original images may be necessary to produce an acceptable database. Attention clearly needs to be given toward determining the quality requirements for this portion of the database and for bringing the data to that level.

The corrective actions already being taken to improve data quality should be continued. A plan for continuing assurance of adequate data quality should be developed and followed to ensure that all of the trademark automation data is brought to and remains at an acceptable quality level. The plan should serve as a basis for verifying that the quality of data in the electronic files is at least as good as the quality of the data in the files used to support manual searches.

Appendix to Trademark Automation Report
Partial List of Documents Reviewed by ICST Team

PTO Automation Master Plan, Volumes 1 and 2, 1982

Article by Glasgow, "The U.S. Patent & Trademark Office: Progress Toward Automation"

FY85 and FY86 PTO Budget Submissions

USTA Trademark Talk/Options Paper, May 29, 1985

RFP for T-Search System, May 20, 1983, and amendments

SDC Proposal 83-5359 for T-Search, Multiple Volumes, August 1, 1983, and subsequent changes, enhancements, and final modifications

MITRE Technical Specifications for the Trademark Examining Process

Life Cycle Management Handbook, March 8, 1983

ADP Life-Cycle Management System Product Guideline, March 8, 1983

Automation Master Plan Status Report, August 27, 1984

PTO Annual Report for FY84

PTO Memo to Executive Staff re Trademark Search System Monthly Status Report, June 6, 1985

MITRE Report, "Functional Acceptance Test Plan for the Automated Text Search System", November 1984

Report: "Technology Survey and Assessment for NASA and the PTO", October, 1981

Draft "Functional Acceptance Test Plan for the Automated Trademark Search System", November 1984

TRAM 2 Post Registration User's Manual

TRAM 2 Data Base: Data Sets and Reference Guide, August 14, 1981

TRAM 2 Trademark Reporting and Monitoring System

Draft "Interim Report of Functional Acceptance Test of Automated Trademark Search System, December 21, 1984

ORBIT Trademark Retrieval System TMARK User Guide, June 1985

Memo Laurence to Bryant re Essential Data Elements for T-Search, October 17, 1984

Memo Laurence to Huther and Bryant re Status of T-Search and Data Base, October 31, 1984

Memo Laurence to Bryant re T-Search Acceptance Test, November 20, 1984

Memo Bryant to Laurence re Status of Trademark Search System, November 20, 1984

Memo Bergsman to Bryant re T-Search Testing, December 10, 1984

Documents & Correspondence re Deficiencies of T-Search, December 1984 to April 24, 1985

Memo Laurence to Maykrantz re Acceptance Test for T-Search, January 20, 1985

PTO Automation Coordinating Committee Materials, 14 documents from January 1982 to February 1985

Burroughs B7700 Monthly Utilization Summary, June 1985

Minutes and Notes of the Trademark Configuration Control Board/Trademark Configuration Management Board, April 1984 - April 16, 1985

Senator MATHIAS. Just a couple more questions. What will you do if H.R. 2434 is enacted? That is a hypothetical question, but not entirely an unlikely one.

Mr. QUIGG. First of all, I think that without some budget authority, it is very plain that all of the automation within the trademark area of the search room would have to be shut down. At the present time, there is no budget authority for trademarks. In fact, contrary to the testimony of Congressman Moorhead this morning, for the last 2 years, the operation of the paper search files has actually been paid for by user fees.

Now, if budget authority were provided, then the automation of the trademark facilities could be upgraded.

As far as the patent side is concerned, this would be a crippling blow, because we are just in the stage of acquiring some of the hardware for our test efforts that will be installed in one of the examining groups. And, although we would have the moneys from the budget authority, the appropriations, that have been going into automation—and we anticipate that about half of that support will be by fees, about half by budget authority—you must look at the fact that if we were to slow down, there would be some contracts that would have to be renegotiated; and what the renegotiation costs would be, we simply do not know. So we do not know how much money would be left to continue our automation of the patent side.

Senator MATHIAS. In light of the General Accounting Office Report, have you done any revision of the cost benefit analysis of automation?

Mr. QUIGG. I will let Mr. Huther answer that.

Mr. HUTHER. One of the recommendations in the GAO report was to take our experience in the last 3 years and reflect that in an updated automation management plan—a commitment which we had extended not only to the Department of Commerce, but to the Office of Management and Budget, as well. A draft of that plan has been developed. It does take the 1982 costs and updates them in current dollars and extends them through 1991. The benefits of that expenditure are also incorporated in that draft report, both elements of which are being considered by the Secretary of Commerce in connection with his review of our 1987 budget request.

So that when the automation master plan is released, which we would expect to be sometime between September and January, for public comment, all of the updating costs and all of the revised stated benefits that we have achieved in those and we continue to strive to achieve will be reflected in that revised document.

Senator MATHIAS. What does it cost to maintain the paper trademark search room?

Mr. HUTHER. The costs for the paper search room are estimated at approximately $325,000 per year.

Senator MATHIAS. In comparison, what would it cost to replace the search room with an automated system?

Mr. HUTHER. In a two-part answer to your question, the direct comparison, the electronic system would cost approximately $961,000 to maintain.

Senator MATHIAS. To maintain, or to install?

Mr. HUTHER. To install and maintain on an annual basis, comparable to the paper search file. However, that figure does not include any of the offsets that would result from automation, such as reduced printing costs and reduced staff costs in other areas.

So, while a direct comparison would tend to indicate a more expensive automated system than compared to the paper——

Senator MATHIAS. Well, the $900,000 figure must contemplate more than 1 year of lifetime of the system.

Mr. HUTHER. No; that would be the annual operating cost for all of the necessary terminals that would be provided to the public——

Senator MATHIAS. That would be amortizing the installation costs.

Mr. HUTHER. That is correct, and the staff that would be provided to assist the public in conducting their searches on the terminals as well.

Senator MATHIAS. You have given us a lot to think about. We will ponder it carefully.

Staff is drawing my attention to one more question that I had overlooked here. They relate to Joseph Newman. There is a glint of recognition in your eye.

Mr. QUIGG. I have heard the name.

Senator MATHIAS. He has been talking about what he says is a revolutionary idea that will solve energy problems. We are advised that the examiner just dismissed the idea as "another perpetual motion machine, as harebrained as all that have preceded it."

Perhaps I can submit some questions in writing with respect to this case.

Mr. QUIGG. Fine.

Senator MATHIAS. But you might just tell me now what you understand to be the nature of this problem.

Mr. QUIGG. Well, I think the nature of the problem is the frustration on the part of the inventor at not obtaining a patent.

In reviewing the case, I find that there has been a fair and even-handed treatment all the way through, not only in the Patent and Trademark Office but also in the courts; and actually, in order to make sure that the applicant has obtained a thorough review of his claim, the court—and I have to point out that the applicant did appeal from a decision by the Patent Office Board of Appeals, which affirmed the examiner's rejection and also added additional reasons why the invention was not patentable. An appeal was taken under section 145 of 35 U.S.C. to the District Court for the District of Columbia. That court remanded it back. We had a second examiner do a review of the case. It went back to the court with the rejection, and there was a motion for a summary judgment. The judge dismissed that and, at that time, he said there is a sufficient question as to patentability that it should be decided at an open trial, and he set the case for trial in February 1986, unless the case is otherwise disposed of in the meantime.

Now, one of our problems is trying to have the applicant keep claims which actually would give the court jurisdiction in this case, and we thought that a supplemental application had been filed that would do this, but we found after checking with the attorney for the inventor that an application which had been filed has now been abandoned, and there is some question as to whether or not the court actually does have jurisdiction.

Senator MATHIAS. You referred to Mr. Newman's attorney. That is Mr. Flannery.

Mr. QUIGG. Flannery, yes.

Senator MATHIAS. We have a statement from Mr. Flannery which it might be appropriate to enter into the record at this point. It will set forth his understanding of Mr. Newman's case. We will have some questions on that subject, also some questions on the concerns that have been brought to my attention by the officers of the Patent Office Professional Association, who claim that there has been a violation of an arbitrator's initial award as interpreted by the FLRB. But I will ask you to comment on that in writing, if you will.

Mr. QUIGG. Fine.

[The prepared statement of Mr. Flannery follows:]

PREPARED STATEMENT OF JOHN FLANNERY

ON BEHALF OF INVENTOR JOSEPH W. NEWMAN

Chairman Mathias, Committee Members, Counsel Oman, and Staff, thank you for this opportunity to address the Patent Office's misuse of the power you've entrusted it.

The Constitution empowered Congress "to promote the progress of science ... by securing for limited times to ... inventors the exclusive right to their respective ... discoveries." You delegated that power to the Patent Office.

But the Patent Office has compromised and misused that derived power by its proven incompetence, its mismanagement of documents (losing 1.75 million in 1983), the irregularity of its actual (as opposed to its stated) procedures, its easily suffered conflicts of interest, and the demonstrable "bad faith" of its legal office.

Yes, these are strong charges.

The evidence, however, is overwhelming they're true.

This past January, Joseph Newman, 48, an inventor from the backwoods of Lucedale, Mississippi, first told me of his experiences with the Patent Office and it rivals anything Dickens ever wrote.

The Patent Office assigned a proven incompetent, Donovan Duggan, to consider Newman's patent application. A federal district judge in Texas found Duggan was incompetent.

The Patent Office refused to consider Newman's proofs that his energy-saving device worked as he claimed. The principal physicist for Sperry Univac, a former Saturn 5 engineer and almost 30 other scientists attest that Newman's device worked. Former Patent Commissioner Schuyler said the evidence was "overwhelming" and without contradiction that the device operated. But the Patent Office didn't have any curiosity, the hallmark of the scientific method, to inspect or to test Newman's device.

According to former Patent Commissioner Schuyler the Patent Office ignored its own rules when it denied Newman's patent application.

Also, according to former Patent Commissioner Schuyler, a patent should have issued.

This Congress may believe it has given an inventor -- "wronged" as Joe was -- an avenue to protect himself from sharp administrative practices such as those I've described or from honest mistakes. After all Congress specifically guaranteed any "dissatisfied" inventor his "day in court." But this body's statutory protection, Title 35, United States Code, Section 145, has been ignored.

Newman has been fighting for his day in court for the last two years.

U.S. District Judge Thomas Jackson assigned to handle this case said in open court that he was incompetent, technically incompetent, to decide this case. So he appointed former Commissioner Schuyler to sort it out for him. Schuyler did just that and said a patent should issue. But the Judge did not adopt his findings.

Instead the District Judge asked for a second opinion. But not from still another impartial arbiter -- from Newman's adversary, the Patent Office.

Newman protested Congress said he was entitled to his "day in court". But Judge Jackson wouldn't let him have it.

Peter Rosenberg, Primary Examiner for the U.S. Patent and Trademark Office, wrote in his treatise **PATENT LAW FUNDAMENTALS:**

> "Such eminent jurists as Learned Hand, Jerome Frank, Felix Frankfurter, and Henry Friendly have on occasion been impelled to allude to the anomaly of allowing judges untutored in science and technology to pass upon patent validity. For this reason alone it should not come as a surprise that an uncomfortably high proportion of litigated United States patents are held invalid."

When the Patent Office got the matter in hand again, they made it clear they expected Newman to exhaust his administrative remedies again, to prove again what Schuyler said Newman had proven, and to comply with its novel and extraordinary orders or they intended to declare his patent abandoned. Thus did the Patent Office direct Newman to produce his device so that they could dismantle or destroy it; they also stated they intended to withhold his device -- Newman's trial evidence -- until after any trial.

The Court by its refusal to exercise the authority this Congress gave it put Newman on the horns of a dilemma. Newman could either waive his right to his day in court by complying with the Patent Office's unlawful orders. Or Newman could have his patent abandoned and thereafter his civil action declared moot.

Newman insisted on his "day in court". But still to no avail.

Newman asked Acting Patent Commissioner Quigg to meet with him. But he refused.

Congressmen asked Acting Patent Commissioner Quigg to meet with Newman. But Quigg still refused.

Quigg's official response has been it would be "inappropriate" to comment on the competence of his personnel, the regularity of his Office's procedures, or the propriety of his legal office knowingly submitting a false affidavit to District Judge Jackson.

These are, Quigg says, matters in litigation.

This is dishonest and misleading. Quigg fails to tell Congress what he has said to the Court. He has told Judge Jackson who is yet to "adjudicate" anything in this case that Newman should never have the "day in court" this Congress guaranteed him. Quigg has moved to dismiss Newman's case.

What Acting Commissioner Quigg has done here is an arrogant and abusive assertion of the powers delegated him by this Congress. Mr. Quigg now serves at the sufferance of the President as "acting" Commissioner.

For reasons now manifest, we have respectfully recommended to the President, through his Counsel Fred Fielding, that Mr. Quigg not be nominated Commissioner until the President or his representative has satisfactorily reviewed Mr. Quigg's conduct of this matter and determined what, if anything, Quigg has done to remedy this injustice.

We respectfully request that this Committee similarly scrutinize the matter.

On behalf of my client, Joseph Newman, who is in Mississippi at work developing a commercial prototype, despite the roadblock the Patent Office has thrust in his path, we are grateful for this opportunity to shed some light on the dark practices of the Patent Office.

Senator MATHIAS. As you heard me say to Representative Moorhead, I am concerned by the $130 billion trade deficit. I am hopeful that we will attain our objective of leading the world in technology and innovation, but I am discouraged that the Patent Office, of all places, has to go to Japan for computers.

Mr. QUIGG. I guess you are no more discouraged than I am, Mr. Chairman. In fact, having come from private industry, it bothers me somewhat. However, our procurement is carried on under some rather strict guidelines. Those guidelines require that we look at not only the technology of the proposal, but also the cost. And up to the present time, the Japanese have been underbidding anything that the U.S. suppliers have been able to offer.

Now, I think as far as the PTO is concerned, our hands are tied. We are operating under some guidelines that we simply cannot change. If it is a sufficient concern to Congress, then I think that maybe the guidelines have to be looked at.

Senator MATHIAS. What is the effect of the exchange rates between the dollar and the yen?

Mr. HUTHER. I would suspect that is playing a considerable part in the pricing that we have been receiving from the Japanese competitors. Many of the pieces of the architecture that we are installing in the Patent and Trademark Office are highly sophisticated, state-of-the-art pieces of hardware. The Japanese have a considerable benefit now on very low interest rates to finance the initial development costs of that equipment, just as a normal capital acquisition process, and more importantly, since most of the components that we are installing are being handled under lease arrangements, likewise the interest rates that exist in Japan are considerably lower than those that prevail in the United States and are giving them at least one edge up on some of their American competitors.

However, I would like to underscore one point. Not all components of the automated patent system will be Japanese. That is clear. In the trademark area, not one piece of Japanese equipment was installed to support the automated trademark system, nor has there been one piece of Japanese equipment to support all of the management systems which were in operation in the Patent and Trademark Office for the last almost 10 years.

So the problem, while it is apparent on the mainframes that have already been selected and installed, is not pervasive in the rest of our selection process, despite the very rigorous procurement regulations that Mr. Quigg has described.

Senator MATHIAS. Well, I think this is illustrative of a much broader national problem that we face, but it is one that is particularly discouraging in, of all places, the Patent Office.

Mr. QUIGG. I agree with that.

Senator MATHIAS. Is there any analogy that you can think of to the fee that is proposed for access to the trademark search rooms—anywhere in American society? We let people walk into the Library of Congress and look at the index and the books. In every courthouse in America, you can walk in and look at the index of land records, and then you can go to the deed books. In any probate court in America, you can go and look at the index of the

States, and then you can go and look at the wills or the administrator's account.

There may be an analogy, but I wonder, will this be the first time in American history that we charge the public for access to public records? Can you think of any other analogy?

Mr. HUTHER. Mr. Chairman, we can think of no direct analogy for public access to Federal records. However, the policy which the Patent and Trademark Office is advocating, quite candidly, is one which is supported by the administration in other areas. We believe that we happen to be testing the issue early in comparison with others. However, I would remind myself that in terms of an analogy, the trademark users have in fact been paying for the public's access to the trademark records since October 1, 1982, not in a direct charge to walk in and physically conduct the search, as we would propose to do with the automated system, but nevertheless, a charge for users who are paying for the search room and, as I said, have been for almost 3 years now.

That is the only analogy that we have identified.

Senator MATHIAS. It seems to me there is a big difference—if you go into a county clerk's office and you pick up a deed and you say, "I'd like a copy," clearly, it is appropriate to pay for the copy. Maybe not for reading the original record, but for the copy. I think you can stretch that to cover the fee that the FBI wants to charge you now for identifying a fingerprint, because that requires some professional service and expertise. That is not simply going and looking at a record, it is a little bit different. But the fact that neither of us can think of any analogy, I think, requires some second thought as to what its broad effect on American society can be as a precedent.

Mr. QUIGG. I guess I would have to say that the Bureau of Budget Memorandum A-25, which I referred to before as having been issued in September of 1959, is a primary reason for the approach that we are taking. That document has existed through several administrations of both parties, and it is simply in line with the thinking of the present administration.

Senator MATHIAS. Well, Mr. Quigg, I would have to say it would not be the first time I have disagreed with the Bureau of the Budget.

Thank you very much for your testimony.

Mr. QUIGG. Thank you.

[Material submitted for the record follows:]

PTO RESPONSES

TO ADDITIONAL QUESTIONS OF SENATOR MATHIAS

i. Q. It has been stated that it will cost the Government $700 million to automate the Patent and Trademark Office. Further, it has been stated that the cost of the trademark portion of the automation effort was initially estimated to be $6.5 million, which then rose to $15 million, and that now it is estimated to be approximately $40 million. Are these accurate reflections of the cost for automating the Office?

A. The original Automation Master Plan, that was submitted to the Congress on December 12, 1982, provided a "high cost" or worst case estimate of all new systems costs of about $700 million (See Table V, page 8-8 of Volume II of the Automation Master Plan that shows automation total costs of $810.9 million less current systems and staff costs of $107.6 million equals $703.3 million). That estimate included the full life cycle costs of implementing, operating, and maintaining the patent, trademark, and data base initiatives through the year 2002. Now that we are nearly three years into the implementation of the plan, we have actual bid prices, which show that, in constant dollars, we are only 8% above the original 1982 estimates for the 1983-1991 time frame.

We are not sure of the basis for the cited $6.5 million, $15 million, and $40 million trademark automation cost estimates. The total costs for trademark automation for the nine-year period from FY 1983 through FY 1991 will range from a low of $31.7 million if no enhancements are made, to a maximum of $38.3 million if revisions to the current system are implemented.

- The $6.5 million citation appears to have been taken from a July 14, 1983, letter to the Chairman of the Public Advisory Committee for Trademark Affairs (See table on page 12 of the letter - copy attached) which identified two years of planned trademark automation costs (FY 1983 and FY 1984).

- The $15 million citation for trademark automation may have been taken from a table furnished during a budget briefing given to the Public Advisory Committee for Trademark Affairs in October 1984 (copy attached). This table shows total planned trademark automation expenditures of $15.048 million (now estimated to be $15.268 million) for three years (FY 1983, FY 1984, and FY 1985) -- compared to the three-year budget for trademark automation supported by trademark fees of $12.104 million. Most of the $3 million, or the 24% variance, arose from higher up-front contract costs; however, these higher up-front costs are compensated by lower future year costs. Accordingly, total trademark systems costs are very close to the estimated costs in the original Automation Master Plan.

- We do not know the origin of the $40 million citation. It may be the FY 1986 automation budget estimate of $41.154 million, but that figure covers trademark plus patent, data base, and ADP support systems.

Q. In addition, could you please provide the following cost estimates for each of the automated systems (e.g. TRAM, T-Search, etc.):

a. Developmental/design costs (in-house and outside contracts)

b. The cost of acquiring hardware, software and the data base

c. Maintenance costs

A. FY 1983-85 cost estimates for each of the trademark systems are:

Trademark Automation Costs
$ in 000's

	Developmental/ Design Costs	Hardware/Software & Base Costs	Maintenance Costs
TRAM	2,281	1,764	3,104
T-Search	801	3,759	3,285
T-Car	-	274	-
Total	$3,082	$5,797	$6,389

As stated, the total costs for trademark automation for the period from FY 1983 to FY 1991 will range from a low of $31.7 million to a maximum of $38.3 million.

TABLE V

Cost Estimates By Major Categories - (High Cost Basis)

(In Millions, 1982 Dollars)

FY	Work Station/ Services	Text/ Image Capture	Data Base Processing	Manage-ment Service	Net-Work/ Process Control	Systems Engineer Technical Support	Current System/ Staff	Total
83	1.5	.4	.5	1.7	.7	2.0	7.2	14.0
84	1.0	1.3	1.6	1.1	.4	1.9	7.5	14.8
85	3.0	7.6	3.5	6.0	1.4	2.0	7.0	30.5
86	12.2	7.6	7.0	6.4	1.6	2.0	6.5	43.3
87	21.4	7.7	9.7	6.8	1.6	2.0	5.9	55.1
88	30.8	1.0	12.9	7.2	1.7	1.5	4.9	60.0
89	32.0	1.0	13.0	7.6	2.1	-	4.9	60.6
90	33.3	1.1	13.3	8.1	2.5	-	4.9	63.2
91	34.6	1.1	13.6	8.6	3.0	-	4.9	65.8
92	29.7	1.0	11.7	8.6	2.8	-	4.9	58.7
93	24.8	.9	9.8	8.6	2.6	-	4.9	51.6
94	20.0	.7	7.9	8.6	2.4	-	4.9	44.5
95	15.2	.5	6.0	8.6	2.2	-	4.9	37.4
96	10.4	.3	4.1	8.6	1.9	-	4.9	30.2
97	10.4	.3	4.1	8.6	1.9	-	4.9	30.2
98	10.4	.3	4.1	8.6	1.9	-	4.9	30.2
99	10.4	.3	4.1	8.6	1.9	-	4.9	30.2
00	10.4	.3	4.1	8.6	1.9	-	4.9	30.2
01	10.4	.3	4.1	8.6	1.9	-	4.9	30.2
02	10.4	.3	4.1	8.6	1.9	-	4.9	30.2

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
ASSISTANT SECRETARY AND COMMISSIONER
OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

JUL 14 1983

John T. Lanahan, Esquire
Chairman, Public Advisory Committee
 for Trademark Affairs
c/o UOP, Inc.
Ten UOP Plaza
Algonquin & Mt. Prospect Roads
Des Plaines, IL 60016

Dear John:

This letter responds to the issues and concerns which you expressed in your letter of May 24, 1983.

I believe everyone connected with the debate on P.L. 97-247 recognizes that the USTA and the Public Advisory Committee did not agree with the Administration's position that there should be no appropriations for trademark operations for the three-year period of fiscal years 1983 through 1985. Nevertheless, the fee schedule recommended by the House Committee in its Report No. 97-542 was clearly based on that premise; that is, to provide sufficient funding to the PTO for trademark operations during fiscal years 1983 through 1985 without the need for any appropriations. Given the Administration's agreement to adopt that fee schedule -- which we have now done -- it was my understanding that the USTA dropped its opposition to the bill that became P.L. 97-247. So that Chairman Mathias is aware of the position of the Public Advisory Committee, however, I am forwarding to him a copy of your letter and my response.

Let me now address how the automation of the PTO is to be funded.

The first stage of our Automation Master Plan is intended to demonstrate the feasibility of a fully automated operation. My testimony pointed out that it made more sense to lease rather than buy the various components during the critically important 1983-84 test-bed phase. Among the factors that will influence the ultimate decision to buy or lease are projected systems life, expected improvements in price and performance and the modular compatibility our system will require.

While we have not made any major capital investments in the development of the automated trademark system, appropriated funds have been used principally in the following two ways:

(1) The TRAM 2 application tracking and control system was developed and is being maintained entirely by the PTO's automation staff at an estimated cost of $1,100,000 from funds appropriated during FY 1982 and FY 1983.

(2) The $933,000 available from the FY 1982 budget has been used or targeted to pay for a portion of the site renovation costs to house the new Burroughs mainframe; to operate a wide range of peripherals; to procure maintenance terminals, scanners and related supplies and services used in capturing the trademark data base; and for a variety of contractor support services.

As you can see, many of the developmental costs are being funded by appropriated budget authority. Furthermore, actual and planned obligations for automation activities are in line with the Automation Master Plan and our FY 1983 and FY 1984 budgets. Of the $28,800,000 in total planned obligations for those years, $14,700,000 represent base system costs which would be incurred even if there were no improvements to the system. The trademark share of the $28,800,000 is distributed as follows:

	1983	1984	Total
New initiatives	$ 933,000*	$ 580,000	$1,513,000
Base system costs	2,370,000	2,563,000	4,933,000
	$3,303,000	$3,143,000	$6,446,000

* FY 1983 revenues -- not the same monies mentioned in the subparagraph (2) above which were appropriated in FY 1982.

The $580,000 in FY 1984 is the amount in the trademark budget for the final developmental phase of the trademark automation project. The $6,446,000 represent the Office of Automation's expenses, of which the base system costs are reflected in the Executive Direction and Administration portion of the PTO budget, to be funded by user fees in 1983 and 1984 for developing, operating and maintaining the trademark system. Thus, we intend to have the trademark operation fully automated before the end of FY 1984, having developed the base system with a reasonable sharing of the costs by the public and the direct users of the system.

I am at a loss to explain the misunderstanding on the financing for the trademark search room. At the time of the January 12, 1982, Advisory Committee meeting, Brad Huther and I knew and I hope candidly and accurately reported that the Administration did not intend to seek appropriations for the trademark side of the Office for fiscal years 1983, 1984 and 1985. The fees that I discussed the preceding November at the American Patent Law Association were based on that policy decision. I can only speculate that my remarks, which covered the overall financing of the PTO, somehow confused the public patent search room (which plays no role in our processing of patent applications) with the trademark search room (which of course is indispensable to our processing of trademark applications). The detailed presentations of the specific budget line items should have left no doubt that the Administration was intending that the trademark operations be self-supporting for the three-year period, 1983-1985.

We are committed to working closely with the Public Advisory Committee on trademark fees and their use in managing the trademark operation. Discussions of budgetary matters and financial oversight can be a permanent agenda item at your Advisory Committee meetings. I also would be pleased to send a copy to you directly of the quarterly financial and statistical information regarding budget execution that I now provide to the President of USTA. Finally, we will respond to any specific questions you or the Public Advisory Committee may have. I believe that these formal mechanisms will be preferable to the establishment of the informal subcommittee that you propose.

We continue to value the help we get from you and the other dedicated members of the Public Advisory Committee and look forward to working with you closely in the years ahead. I hope you will agree that we are turning things around in our trademark operations and that we are bringing about the improvements on which the new user fees were premised.

Sincerely,

Gerald J. Mossinghoff
Assistant Secretary and Commissioner
of Patents and Trademarks

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May 24, 1983

The Honorable Gerald J. Mossinghoff
Acting Deputy Secretary of Commerce
U.S. Department of Commerce
14th and Constitutional Avenue, N.W.
Washington, DC 20230

RE: Senate Judiciary Hearings on the Patent and Trademark Office

Dear Jerry:

As I mentioned in our telephone conversation of May 3, I was quite concerned after reading the transcript of the April 7 Senate Judiciary hearings on the PTO, and we, of course, discussed this on May 8 after dinner. As I indicated, I felt the testimony implied the Public Advisory Committee's approval of the present fee schedule with the understanding there would be no appropriations for three years.

The actual schedule of fees that the Advisory Committee approved and stood behind was based on the proposition that there would be a small appropriation ($4 million). What actually happened was that we were given the option to accept the PTO's proposed fee schedule, or to present a new schedule that would not significantly affect the bottom line. When it became totally clear to the Committee that there would not be an appropriation for FY 1983, it submitted a realignment of these fees, not on the basis that it approved these fees, but on the proposition that it was imperative to bring down the filing fee ($200 to $175) as much as possible, since this was a very critical element in the Public Advisory Committee's opinion, because it would affect the future use of the Trademark Office by the public. This proposition is reflected in the House Report on Public Law 97-247 on page 3, where it states:

> "The [House] Committee is aware of the concerns of users of the Trademark registration system ... and intends to exercise vigorous oversight with respect to the Commissioner to ensure that fees remain at a reasonable level ...."

We appreciate that the PTO budgets are set up for three year periods, and the schedule of fees was structured to meet current operational expenditures for this period. It recognized that there would be no appropriations for FY 1983, and that the incoming funds would be used for processing the backlog during FY 1983. However, it was the Committee's understanding that each year a new budget is submitted for which there is a projection for an additional two years, and each year the PTO seeks appropriations for its operations, meaning that there would be future opportunities for appropriation of funds to cover expenses that clearly should not be the responsibility of the current users.

I am stressing the above points to make it absolutely clear that the Public Advisory Committee has never "approved" of any 100% recovery, and certainly not to the extent suggested by the testimony reported in the transcript at the hearings of April 7. The law as amended left the door clearly open for future appropriations, including FY 1984-85 and beyond. This was made possible when the reference to "100% recovery" was deleted.

There is substantial documentary evidence that clearly shows that the Public Advisory Committee and I feel very strongly about the necessity of appropriations being made in respect to certain portions of the operation of the Trademark Office, and in particular, that there should be funds to handle the backlog, meet the cost of the computerization program, and to share the cost of operating the public search room, as well as the TTAB. Many of these points were raised in the testimony that I gave in behalf of the Advisory Committee at the Senate Hearings before Senator Weicker in April of last year. For your convenience, a copy of that testimony is attached.

It was our belief that you were in agreement with us on many of these points, and in support of this position, I want to direct your attention to pages 20-24 of the Official Minutes of the Public Advisory Committee meeting of January 12, 1982, which you attended (copy attached), and our letter to Senator Thurmond of May 4, 1982, where we again reemphasized the importance of an appropriation for trademarks.

Incidentally, in the initial draft of the above-mentioned minutes of the January 12, 1982 meeting, which was taken from a taping of the proceedings, it is clearly pointed out on page 49, and particularly on page 62 (copies attached), that you did not consider the "search room" related to the "processing of an application." Therefore, its costs should not be considered recoverable under the 100% provision in the original law. At that point, Assistant Commissioner Huther likewise stated:

> "... that it was the Office's interpretation of the legislative history of the law that those things not directly related to trademark processing are simply not to be considered recoverable. Capital expenses and some salaries, such as the Commissioners', are also not recoverable for either patents or trademarks."

The elimination of the 100% recovery by Public Law 97-247 now places the level of cost recovery for trademarks fully within the discretion of the Commissioner. Therefore, it is in his power to seek appropriations for those areas which were earlier recognized as not the responsibility of the current user.

On another issue, relating to the computerization program, it seemed clear that it was Congress' intent to appropriate funds for the computerization of the PTO, once cost was determined. At no point in time were there any presentations in the earlier summaries or reports that there would be no capital expenditures for computerization of the trademark side of the Office, and that the Trademark Office's computerization would be paid for solely by its users under the proposition that all software, hardware, etc., would be leased rather than purchased.

It is difficult to conceive that all expenditures made in connection with this computerization program can be classified as leasing charges, particularly the cost of developing the necessary software, and the necessary special training of personnel. It is the Committee's opinion, based on the minutes of its February 4, 1983 meeting, that single, one-time charges for software and other related charges should be treated as capital expenditures, and adequate appropriations be requested to meet these additional costs.

We are aware that the Trademark Operations ran a deficit of about $900,000 in the first quarter of FY 1983, that it was still running a deficit at the end of the second quarter, and although projections suggest they may break even for FY 1983, a great deal will depend on the assessment that the PTO will place on the Trademark Operations for the computerization program. The current deficits are traceable to the substantial current charges (over $1.67 million for the first half of FY 1983) for computerization, which I assume is partly attributable to the leasing costs, and the failure to draw the $933,000 that was not used in FY 1982, and was still available for the Trademark Office's use.

There is a question of how much of a charge will be made for computerization during the year 1984, considering what is occurring during the current fiscal year. The reference in the FY 1984 budget that there would only be $600,000 charged to trademarks raises some questions, since it was earlier reported that there would be a total charge of between $6 million and $7 million (out of the $28.2 million) for the automating of the Trademark Office, which is supposed to occur before the end of 1984. Assuming that there are going to be some one-time expenses involved, why shouldn't there be an appropriation to cover this cost?

We are aware that last month TRAM 2 finally came into being, but some serious questions have been raised about whether the Office will truly be fully computerized by the end of 1984 under the present program. We are also aware that steps are being taken to computerize the search room in the sense that all records will be entered into the computer by the end of 1984, and that the PTO is currently requesting bids (RFP's) from parties who provide hardware and software plus personnel support to maintain equipment for a system that will search trademark words stored and retrieve trademark designs, and also provide hardware and software to integrate both of the above systems.

The Committee believes there needs to be a clarification as to what extent the Office will be computerized by the end of 1984, and that it be advised as to what expenditures are anticipated for it to reach the ultimate goal referred to in the three volume report distributed earlier this year.

I believe there is a possible misunderstanding of the Public Advisory Committee's position, but the Committee feels it is critical that it be understood by the Senate Subcommittee that at no time did it agree to or accept the proposition that there would never be an appropriation for the trademark operation. As Chairman of the Public Advisory Committee, I am requesting you to clarify this with the Senate Subcommittee. Although this might be accomplished at the next Senate Subcommittee Hearing scheduled for June 15, 1983, it might be more convenient to provide a copy of this letter to the Senate Subcommittee or to Senator Mathias, since he is the Chairman, or at least to the Senate Subcommittee's Chief Counsel, Ralph Oman.

As a further point, I would also like to suggest that you consider the proposal, or recommend to your successor, of having a three member subcommittee made up of members of the Public Advisory Committee to serve as a liaison with your budget people so that there is a better understanding of how the trademark funds that are being generated by these new fees are being used.

As you are aware, Secretary Baldrige, in an earlier letter to me, fully agreed that the budgetary process of the Trademark Office should be opened to the Public Advisory Committee, and we believe that such an oversight committee would tend to avoid and prevent any future misunderstandings. It is felt that with your cooperation, we have developed a strong working relationship with the Office, and we are anxious to maintain these lines of communication.

In your new position, the PTO budget will undoubtedly come under your scrutiny, and I am sure from your past knowledge of the situation you will agree that in all fairness to the current users, both debts of the past and future modernization costs should not be 100% the responsibility of the new users of the system. This is clearly not what Congress had in mind in Public Law 96-517 when they limited the 100% recovery to trademark processing, nor in Public Law 97-247 when they removed the 100% recovery and gave the Commissioner the discretion to set the fees, but cautioned him in their House Report that they intend "to exercise vigorous oversight ... to insure that fees remain at a reasonable level ...."

In behalf of our Committee, I want to thank you for your considerable interest and participation in its activities during these past two years you have served as Commissioner. We offer our congratulations on your new appointment, and wish you every success in the future.

Best personal regards,

John T. Lanahan

John T. Lanahan, Chairman
U.S. Commerce Department's Public
Advisory Committee for Trademark Affairs

JTL/jg
Enclosures
cc: Members U.S. Commerce Department
Public Advisory Committee for
Trademark Affairs

Financial Overview of Trademark Automation ($000's)

Fiscal Year	Trademark Fees		Appro-priations	Sub-Total	Repro-gramming	Add'l PTO Resources Provided	Total Expenditures on Trademark Automation
	Direct	Indirect (25.2%)					
1982							
Avail.			933	933			
Exp.			-	-	-	-	-
Bal.			933	933			
1983							
Avail.	933	2,370	933	4,236			
Exp.	-517	-2,183	-933	-3,633		403	4,036
Bal.	416	187	0	603			
1984							
Avail.	416	187		603			
	580	2,547		3,127			
	996	2,734		3,730			
Exp.	-996	-2,596		-3,592	1,161	481	5,234 est.
Bal.	0	138		138			
1985							
Avail.		136		136			
	305	4,058		4,363			
	305	4,194		4,499			
Exp.	-305	-4,194		-4,499	-	1,279	5,778 est.
Bal.	0	0		0			
Total Exp.	1,818	8,975	933	11,724	1,161	2,163	15,048

2. Q. In your testimony before the subcommittee you indicate that the yearly cost of maintaining the existing files is about $325,000 per year, and that the yearly cost to maintain the new electronic system once it is installed is $961,000. Does this accurately reflect the cost; will it cost more on a yearly basis to maintain the new automated system than the old paper search files, and, if so, why?

A. The cited costs for the Trademark Search Library are correct. The $961,000 covers both the cost of maintaining the paper search file and the cost of making the automated search system available to the public. Of this amount, approximately $325,000 is necessary to keep the paper file including staff and space. The rest, to make the automated system available, is composed basically of three major cost components:

(1) approximately $80,000 to cover the costs of three higher-grade employees who will assist the public in performing on-line searching;

(2) approximately $190,000 to cover the costs of providing electronic contractor services (terminals, computers, etc.) rather than lower cost contractor services for filing of paper references; and

(3) approximately $370,000 of indirect costs that were separated from the cost base of the paper search file but, because the costs of the electronic search facility would be paid for by user fees, those indirect costs were included in the cost base for the electronic system in accordance with OMB Circular A-25 cost recovery quidelines.

Regardless of which computational method is used, the annual costs of providing an electronic search facility exceed that of maintaining the existing search file. However, significant benefits will accrue to the users of the new automated system. For example, the new system will provide:

- a more complete, more reliable, and higher quality searching database;
- better search tools to retrieve relevant documents;
- faster, higher resolution prints of search references; and
- the future possibility of remote searching throughout the PTO's Patent Depository Library network rather than the single search file that exists only in the Washington area.

Q. In 1982 PTO estimated that there would be $77 million in savings over 20 years as a result of automating trademarks. Where are the savings from automation going to come from if automation costs more to maintain on a yearly basis than the paper search files?

A. The PTO continues to believe that savings will be achieved in the following areas:

- printing -- there will be savings from the termination of the trademark data base printing contract
- clerical support -- many routine manual tasks can be automated;
- space -- this assumes eventual elimination of space primarily for storage of hundreds of thousands of pending, registered, and abandoned files; and

- efficiency -- using electronic storage and data transfer, we will eventually save time and resources in moving and processing applications throughtout the Office and in providing copies of registrations and trademark application papers, for example.

While the GAO report pointed out that the Assistant Commissioner for Trademarks disagreed with the assumptions which were relied upon in estimating the $77 million in savings over the next 20 years (thereby indicating less potential savings), the Assistant Commissioner for Trademarks does agree that there will be cost savings. In response to the GAO report and the DOC review, we are conducting a new cost-benefit analysis. This analysis will be included in the revised Automation Master Plan.

3. Q. I understand that PTO's FY 86 budget submission does not include funding for maintaining the paper search room. It that true? If the restrictions on user fees in H.R. 2434 are enacted would you provide funding for maintaining the paper search room, and, if so, at what level?

Does the PTO's failure to request funds for the paper search room conflict with its statements that no decision about dismantling the paper system would be made without a public hearing?

A. Yes, it is true that the PTO's 1986 budget request (page PTO-41) does not include funding for maintaining the trademark paper search file. It proposes an initiative to establish a new Automated Trademark Public Search Room.

While there may be an appearance of a conflict between the 1986 budget request and the policy of maintaining the paper search room in 1986, it must be remembered that the 1986 budget request was actually formulated in the spring of 1984. At that time the PTO assumed that the Automated Trademark Public Search Room would be operational by FY 1986. Following the submission of the 1986 budget, we determined that the Automated Trademark Public Search Room would not become operational as early as expected. The United States Trademark Association, the National Coordinating Committee, the American Intellectual Property Law Association, and the Intellectual Property Owners, Inc., were informed repeatedly that the paper system will not be dismantled until the PTO and its users are satisfied that the automated search system is at least as good as the existing search file and not before a public hearing is held.

If the restrictions on user fees in H.R. 2434 are enacted, the PTO will seek Congressional approval to reprogram patent appropriations to operate and fund the trademark paper file search room in 1986 at essentially the current level. The Administration does not plan to submit a budget amendment for fiscal year 1986 to fund the paper trademark search room in view of the need to reduce the Federal budget.

Changes for Fiscal Year 1986

	1986 Revised Base		1986 Estimate		Inc. (+) or Dec. (-)	
	Perm. Pos.	Amount	Perm. Pos.	Amount	Perm. Pos.	Amount
Customer services	115 (123)	$9,987	121 (125)	$10,626	+6 (+2)	+$639

Customer Services
The PTO requests an increase of 11 positions and $961,000 to create a new Automated Trademark Public Search Room to be offset by a reduction of 5 positions and $322,000 to eliminate the trademark paper file search room. The net increase is 6 positions and $639,000. The Automated Trademark Public Search Room will be totally supported by special user fees.

Constant use of deteriorating paper files has resulted in poor integrity and declining services to the public. The requested increase will enable the PTO to replace the trademark paper files by establishing an automated trademark search center. The request includes funds to (1) assure security of the electronic files, (2) monitor the condition of the files, (3) assist public users in automated searching, and (4) monitor the use (including automated billing) of the search system.

Automated files will allow the Office to maintain 100% file integrity. The public will be able to access an accurate data base simultaneously through automated terminals resulting in more comprehensive searches in a shorter time period. Under the current system, access to paper files is limited to one person per file, causing delays in searching. The searcher also has the option of printing a copy faster and at higher resolution directly from the automated terminals instead of waiting to gain access to a copying machine.

The position and object class detail for the change follows:

	GS Grade	Number	Annual Salary
Supervisory clerk	9	+1	+$ 21,804
Search advisor	7	+2	+35,648
File supervisor	6	+1	+16,040
Data technician	5	+4	+57,560
File clerk	5	+2	+28,780
Clerk typist	3	+1	+11,458
Subtotal		+11	+171,290
File supervisor	6	-1	-19,250
Clerk	5	-2	-32,620
Clerk	4	-2	-28,298
Subtotal		-5	-80,168

4. Q. There is a fairly wide-spread sentiment in the private sector that throughout the decision making process on trademark automation, the flow of information from the PTO to the public has been inadequate, and that as a result users have not been able to contribute their ideas at a time when they would be valuable. How are you coordinating with the user community to ensure that the automation system meets their needs, particularly since the user community would, under your plan, pay for the trademark automation? How are you coordinating with the patent users to ensure that the automation meets their needs?

A. The following is a chronology of some of our efforts to keep the trademark community informed on the status of the trademark automation over the past four years:

4/81 -- Plans outlined for Public Advisory Committee for Trademark Affairs

7/81 -- Public Hearing on long-range Automation Master Plan mandated by section 9, Public Law 96-517

11/81 -- Over 700 copies of draft Automation Master Plan distributed to industry and bar groups, including United States Trademark Association, Section of Patent, Trademark and Copyright Law of the American Bar Association, Intellectual Property Owners, Inc., National Council of Patent Law Associations, Public Advisory Committee for Trademark Affairs

1/82 -- Commissioner Mossinghoff briefed the Public Advisory Committee for Trademark Affairs and U.S. Chamber of Commerce and solicited their comments on the first draft of the Automation Master Plan

5/82 -- PTO cosponsors with the Bureau of National Affairs a seminar on and demonstration of some elements of automated searching

10/82 -- PTO staff gave reports to the American Patent Law Association including the Committee on Trademark and Tradename on the final draft of the Automation Master Plan

12/82 -- Automation Master Plan submitted to Congress and to major patent and trademark bar organizations

1/83 -- PTO publicly announces signing of exchange agreement with Compu-Mark to build retrospective trademark data base

1/83 -- Briefing given to Trademark Public Advisory Committee for Trademark Affairs

2/83 -- Automation status report provided to National Council of Patent Law Associations

2/83 -- Briefing given to Public Advisory Committee for Trademark Affairs

5/83 -- Guidelines for entering into exchange agreements were published in Federal Register

5/83 -- PTO provides in-depth briefing at annual United States Trademark Association meeting, explaining the "comparable and equivalent" search restriction contained in Compu-Mark exchange agreement and announces signing of exchange agreements with Thomson and Thomson, Inc., and TCR Services, Inc.

8/83 -- Assistant Commissioner for Trademarks provides a 17-page response to 28 questions posed by American Patent Law Association regarding trademark automation

9/83 -- Working relationship established with National Coordinating Committee (NCC) for trademark automation

10/83 -- American Patent Law Association committees updated on status of project

10/83 -- Commissioner Mossinghoff provides written responses to questions posed by the Chairman of the National Coordinating Committee

10/83 -- Briefing for Public Advisory Committee for Trademark Affairs

10/83 -- Trademark Automation discussed with National Coordinating Committee

11/83 -- Briefing given to Public Advisory Committee for Trademark Affairs

11/83 -- Meeting with National Coordinating Committee

11/83 -- Meeting with Intellectual Property Owners, Inc.

12/83 -- In-depth briefing for National Coordinating Committee regarding contract award to Systems Development Corporation

1/84 -- Cleveland and Maryland Patent Law Associations briefed on trademark automation

1/84 -- Meeting with National Coordinating Committee

2/84 -- Commissioner writes to President, United States Trademark Association, regarding data base exchange agreements

3/84 -- PTO provides automation schedule to Chairman, National Coordinating Committee

3/84 -- United States Trademark Association distributes to its membership the Commissioner' February 1984 letter to President, United States Trademark Association explaining trademark automation strategy and implementation

3/84 -- Meeting with National Coordinating Committee representatives to solicit their suggestions for renegotiation of exchange agreements, including the possibility of a separate user fee to eliminate the "comparable and equivalent" restriction

5/84 -- Briefing for attendees of PTO Annual Patent Depository Library Conference

8/84 -- PTO publishes proposal on user fees for public access to the automated trademark search system

9/84 -- PTO holds public hearing on the proposal on user fees for the automated trademark search system

10/84 -- PTO provides in-depth financial overview of trademark automation project to Public Advisory Committee for Trademark Affairs

10/84 -- Briefing given to Public Advisory Committee for Trademark Affairs

2/85 -- PTO provides in-depth briefing to National Coordinating Committee on exchange agreement buyout options

4/85 -- Acting Commissioner briefs United States Trademark Association representatives on three options for enhancing trademark automated systems

5/85 -- Briefing and demonstration of T-Search and enhancements option given to an ad hoc group of experienced trademark practitioners

There are two basic requirements for trademark automation, i.e., to service the needs of trademark examiners and to service different needs of the trademark bar. During the first three years of the program, we informed the bar of what we were doing, -- primarily examiner oriented. Needs of the bar were anticipated predominately to track needs of the examiner. At the annual USTA meeting in April, I told two representative groups that we would no longer tell them what we think their needs may be. To the extent possible, we will suggest to them a range of options, we will evaluate their requests from a compatability standpoint, and will strive to implement their choice to the extent they are financially feasible.

The PTO has conducted numerous meetings with and briefing for patent groups. A letter from the Chairman of a private sector Advisory Committee to United States Patent and Trademark Office on Patent Automation commenting on our relations is attached.

Thus, the PTO believes it has made comprehensive and genuine attempts to obtain bar input and keep interested parties informed of its plans, policies, and objectives in automating both its patent and trademark operations. We intend to continue to make every effort to ensure that the information about our automation effort reaches all interested groups and to take full account of their views and needs. Among other new initiatives in this regard, we tentatively expect to re-establish the Patent and Trademark Office Advisory Committee with broad-based membership to obtain the widest possible input to our automation efforts.

Hon. D.J. Quigg May 8, 1985.

The Committee wishes to express its appreciation for the communication and liaison which has been established by the PTO with the Committee. The PTO officials have met with the Committee several times over the past two years. At these meetings, presentations and demonstrations were made by the PTO, and advisory reports and recommendations were made by the Advisory Committee on such matters as:

- o The evolving concepts and architecture of the PTO's planned Automated Patent and Trademark systems;

- The status of the PTO's progress toward the implementation of these planned automated systems;

- The results and automation impact of the recently undertaken "Trilateral Cooperation" between the USPTO, the EPO, and the JPO in the field of industrial property;

- The interface between the applicant and the PTO in connection with the PTO's Patent Automation Plans;

- The PTO's "Electronic Patent Data Dissemination Guidelines";

- The patent information needs of the patent bar and the public, and how these needs may best be met by the planned Automated Patent System; and

- The costs and funding of the PTO's Automation System and its impact on patent fees.

The Committee wishes to express its continued support for the general objectives of the automation of the patent-related functions of the PTO, as expressed and embodied in the overall Automation Master Plan of the PTO. The Committee also wishes to express its support for initiatives taken by the PTO in promoting "Trilateral Cooperation" between the USPTO, the EPO and the JPO in the field of industrial property, and particularly with respect to the automation of patent searching and examination.

5. Q. Mr. Banner in his testimony indicates that there are three aspects to maintaining and improving the quality of patent examination: an accessible library, capable examiners, and adequate time to do the examination. While automating should bring about a more accessible library, what are you doing about the other two aspects of patent examination quality? In general how do you measure and keep track of the quality of patent examination? What are your standards and methods in this area? Do you think that the cuts made by the Office in its 1985 programs will affect quality (i.e. reducing the use of commercially available data bases by patent examiners for searching purposes, eliminating training for examiners, reducing programs for reclassifying the patent file, and checking file integrity)?

A. The PTO has taken steps to assure a capable examining corps with adequate time to conduct the examination of patent applications. These steps have resulted in the PTO having a better educated and trained patent examiner work force now than at any time in the last several decades and in each examiner now having more time to examine each application than just ten years ago. The details of these steps are as follows:

* The PTO has been successful in recruiting high-quality new examiners. The average grade point of the over 660 new examiners hired between 1982 and the present is over 3.0 on a 4.0 system. The Patent Academy training program given to all new examiners during their first year was totally revised in 1983 with the assistance of a group of patent attorneys to improve the examiners' capability to do an efficient, quality examination. In addition, new examiners are

thoroughly trained on-the-job by their supervisor or a senior examiner.

- Examiner training programs are extensive and focus on technical, patent-related legal, and procedural training. The PTO encourages and pays for after-hours, examining-related technical and legal courses at local universities; provides in-house technical training courses including use of a video tape library; provides in-house legal training in certain law school level courses, some taught by contract law professors; conducts technical and legal seminar programs; permits examiners 16 hours of official time and 40 hours of compensatory time per year for attendance at job-related professional programs of their own choice; and provides other training, including supervisory training for managers. A general description of the training program for examiners is attached. It is essentially the program that resulted from a comprehensive zero-based analysis of the PTO conducted in 1979-1980. In addition, an Examiner Education Program comprising periodic examiner visits to research and manufacturing facilities to see the technology they examine firsthand was instituted in 1982 and has been very successful in better acquainting examiners with the practical considerations involved in developing new technology. More than 650 examiners have participated in the program over the last 3 years visiting over 300 technical facilities

- In 1975, an internal PTO committee thoroughly reviewed the time allocated for examination and concluded that more time should be provided. As a result, all examiner goals were adjusted in 1976 to permit an additional 1.2 hours (7%) to examine an application on the average. Further, since the 1976 "quality hour" adjustment in all examiner goals, a number of individual examiner goals have been adjusted under special procedures where significant changes in technology have occurred. As a result of these individual adjustments, the average examiner has more than a half hour of additional time (3%) for a total of almost 2 hours or 10% more time since 1976 to examine an application. Presently, the average GS-12 examiner goal provides for over 20 hours to process an application. In addition, other steps were taken at the time and since then to help provide the examiner with relevant prior art. For instance, the applicant's duty to disclose material prior art technology to the examiner was clarified and rules were adopted providing for the submission of prior art in the form of information disclosure statements. Access to commercial data base searching in the Scientific Library and more recently throughout the Examining Corps for hands-on use by examiners was also provided. Beginning in FY 1986, access to commercial data bases is a specific budget item for the Patent Examining Corps. In addition, reclassification efforts offset much of the additional search time resulting from the increasing complexity of technology and the size of the search file.

Quality is difficult to measure and track. The principal monitors of quality are the supervisors, through the performance appraisal system for examiners, and the Quality Review Program. The work of junior examiners is reviewed by their supervisor or a senior examiner. The work of senior examiners with the authority to sign their own actions or letters, and to allow patents is reviewed by a supervisor on a sampling basis. The critical element in the examiners' performance appraisal plan contains three performance criteria: the quality of their actions or letters, the quality of their determinations on patentability, and their productivity.

Under the Quality Review Program, a separate group of quality review examiners sample and thoroughly review the examiners' handling of a 4% random sample of all applications allowed for patenting (15% in the case of reissue applications and reexamination proceedings). Cases in which a problem exists are sent back to the Examining Group for appropriate corrective action. Quality Reviewers also meet periodically with the Examining Groups to discuss problem areas and issue quarterly reports on their findings.

Other quality monitors include statistics on appeals from examiner decisions, the percent of applications for which a patent is granted, and informal subjective feedback from users. Statistics on the percent of patents invalidated by the courts is not a good measure. The patents litigated represent a biased sample and, as one would expect, the percent of patents held valid or invalid is close to 50%, the odds one would expect if opposing parties decide to pursue expensive litigation.

We do not believe that the cuts made in 1985 will have any significant effects on quality. The reduction in the use of commercial data bases is temporary. Funds were not specifically budgeted for hands-on commercial data base searching in the Patent Examining Corps in 1985 and in earlier years. Funds will be fully restored in this area in FY 1986 at the budgeted levels, $1,745,000 in the Patent Examining Corps and about $400,000 in the Scientific Library for specialized searches on behalf of the Corps. The most valuable areas for commercial data base searching were retained to minimize the effect of the cut. Examiner training was not eliminated in 1985 but only reduced a relatively small amount. The cut amounts to less than 2% of the total examiner training funding and involved supervisory and management training that could be deferred with minimal consequences.

Reclassification output was cut by about 11% by reductions in overtime funding in FY 1985. This cut is also intended to be short-lived. The existing file integrity program covering the integrity of the U.S. patents part of the search file was cut in anticipation of automation which will eliminate the need for such a program. If the integrity program was fully funded, 3.3% of the search file would be reviewed and corrected during FY '86. Thus, the effects of this cut will be very small over the relatively short period of time until automation comes on stream.

PROFESSIONAL EXAMINER TRAINING PROGRAM

PATENT EXAMINING CORPS

FISCAL YEAR 1985

THE PATENT ACADEMY

The Patent Academy comprises a 180-hour program of training for all new patent examiners and has been recently revised to reflect current PTO practices and procedures. Phases I-IV of the Academy are scheduled throughout the new examiner's first year in the Office and are keyed to the new examiner's on-the-job training and current job experiences. Phase V of the Patent Academy constitutes part of the continuing education program for examiners.

I. Phase I - Patent Examiner Initial Training

A formal 10-day Patent Examiner Initial Training program consitutes Phase I of the Academy. This is offered to new examiners immediately upon their arrival to the Patent and Trademark Office and provides an orientation to the Office and patent examining procedures. The course is taught by Supervisory Primary Examiners with class size ranging from 8-12 students.

II. Phases II, III, and IV

Phases II, III, and IV of the Patent Academy are offered to the new examiner after 3, 6, and 12 months in the Office. In these phases of the Academy, subject matter experts deliver formal lectures on specific topics. These lectures are followed by classroom exercises administered by primary examiners who are on career development detail to the Academy as instructors. The instructors administer all exercises and examinations in the Academy and evaluate the trainees. For classroom instruction, the class is divided into three disciplines. The class size does not exceed 50.

III. Patent Academy Refresher Seminars

These seminars are conducted by the Patent Academy lecturers to communicate current procedural aspects of Patent Law to experienced patent examiners. Content of these seminars reflects changes that are continually being made in PTO practices, revisions of MPEP, and the Patent Law.

PATENT EXAMINER CONTINUING EDUCATION PROGRAM

IV. Legal

A. In-House Legal Courses - These courses provide legal education to those professional non-attorney emloyees not presently enrolled in a formal law school program. Three courses consisting of Patent Law, Legal Method and Evidence are provided for the Examining Corps. The Patent Law and Legal Method courses are conducted by a Professor of Law

from one of the local law schools. These courses include 20 hours of instruction embracing subject matter of general legal interest related to the patent examining process. The Legal Method course includes hands-on training and practical exercises in the LEXIS system. The Evidence course is presented by an in-house instructor. Examiners must have completed the Patent Academy to be eligible to attend these courses.

B. Law School Program - This program consists of tuition assistance for those employees enrolled in law school during non-duty hours. The program pays for approximately 60% of the courses taken in earning a law degree and are job-related. Information on this tuition assistance program is available from the training manager.

C. Legal Lectures - A series of lectures on legal topics pertinent and useful to the Examining Corps are offered periodically throughout the year. Examiners can attend with supervisory approval.

V. Technical

A. In-House Technical Training - This activity includes a wide variety of video-tape courses supplemented by in-house instructors designed for the continuing education of engineers and scientists. Current instructor led courses are: basic computers, basic electricity and electronics, digital circuits, chemical abstracts, chemical engineering, and hydraulics. These courses average in length from 15-20 hours and the class size is normally about 15. There are also numerous single concept video-tape available in specific technical areas, i.e. fiber optics, microprocessors. These tapes can be viewed in the training office.

B. Technical Course Program - This training activity includes but is not limited to formal university courses, technical institute courses, home study courses, and advanced degree non-legal university courses and all other technical courses related to specific arts offered in other government agencies or non-government facilities, normally during non-duty hours.

C. Non-Industry Examiner Visits - This activity provides the examiner with first-hand exposure to actual devices, methods and industry problems in assigned arts. Additional benefits derived from field trips are face-to-face meetings with inventors, reviewing the state of the art, watching experiments for proper perspective in the assigned art. Local trips are defined as any trip that does not exceed one day in duration, e.g. tours of such neighboring facilities as NBS, NRL, NASA. Also included in this category are trade shows and technical conferences.

VI. Other Training

A. 16/40 Program - This category of training is set forth in a Personnel Officer memorandum of September 26, 1975:

> "Professional employees may be granted annually, subject to appropriate supervisory approval, up to 16 hours of excused absence to attend meetings of their own choice of legal and technical groups and professional societies. In addition, professional employees may earn in advance . . . a maximum of forty hours of compensatory leave . . . for attending similar meetings."

The most common uses of the 16/40 leave provision are: BNA Conferences, POS Lectures and Films, Patent Law Association Meetings and Technical Societies Seminars. Attendance of these functions is subject to appropriate supervisory approval.

B. Other Seminars - The seminars included in the program are those which do not fall into the 16/40 program and can be technical or procedural in nature.

C. Speciality Training - This activity is for those professional employees lacking sufficient skill in such areas as English, technical writing, and speech. It is contemplated that one course each in English, technical writing and speed reading be offered to approximately fifteen students a year.

VII. Examiner Education Program

The purpose of this program is to increase examiner awareness of industrial technology particularly in rapidly advancing industrial fields. Contributions are made by commercial business concerns, foundations, and private individuals.

Under this program, examiner's with more than one year experience are given the opportunity to visit commerical or industrial installations every three years as funds are available. For detailed information on this program, contact your group director.

VIII. Career Development Details

These are detail assignments to various areas of the Office for up to four month periods. (Most of the details are designed for experienced examiners.)

6. Q. How do you measure and keep track of the quality of trademark registrations? Will automation facilitate the quality of trademark registration by improving file integrity? Have you ever conducted an analysis of the file integrity of your paper trademark files? If not, how do you know that automation will improve file integrity?

A. Primarily, the quality of trademark registrations is assured through closely monitoring the work of the examining attorneys in the Trademark Operation using a comprehensive quality review plan incorporated into the "Examining Attorney Performance Plan." First, this quality control procedure mandates that every application containing a trademark approved for publication and registration be checked by the examining attorney's supervisor for correctness of form and substance. Second, the quality review procedure provides for a detailed review of randomly selected files handled by each examining attorney. In this review, the managing attorney must check each selected file for quality of examination on (1) statutory refusals, (2) application requirements and Office practice and procedure, and (3) the quality of the written Office action itself as to organization, legal analysis, and timeliness of disposition. When problems are identified, action is initiated by the examining attorney's supervisor to correct the situation. Further, overall results of the quality review procedures are collected and analyzed by the Office of the Assistant Commissioner for Trademarks. Where generalized problems in the examination process are detected, appropriate steps are taken to make changes in Office practice.

Additionally, all trademarks approved for allowance must be published in the Trademark Official Gazette (TMOG). A procedure was established to have senior examining attorneys carefully review each week's TMOG for "obvious" errors. If any administrative or printing errors are found, they are immediately corrected before the mark is finally registered. If it appears that a clear error in examination has been made, the application is returned to the examining attorney for reevaluation.

Automation of trademark records and file docketing procedures will improve overall file integrity. Automation of the docketing and tracking of applications and registered files in the Trademark Operation has already made a significant contribution to the integrity of the registration process. Procedures have been incorporated into the TRAM system to account for the status and location of any particular file at any time; and, as a result, the incidence of "lost" files and/or lost papers has been substantially reduced. Additionally, because of the measures limiting access for editing of data in the

TRAM and T-Search data bases, unauthorized parties cannot alter any application data which has been entered in those data bases.

No formal analysis of the file integrity of paper trademark application and search files has been undertaken. No inventory indicating where particular registrations have been filed in the alphabetic file according to prefix, suffix, phonetics, etc., existed. Thus, an accurate review of search file integrity could not be made without going through the expensive process of creating an inventory. However, the PTO has always had to respond to complaints from the public, and to correct internal problems affecting the examination of applications and the maintenance of the paper search files. These complaints were an indicator of problems with trademark application and search file integrity. As the various automated systems have become fully operational, or as enhancements have increased their effectiveness and efficiency, complaints about the integrity of the application files have decreased. In fact, many of the features which have been incorporated into trademark automated systems were developed because of the complaints concerning the integrity of the paper files. Their success is indicated by the lower number of complaints.

We also believe that automation of pending application and registration records will improve search file integrity based on anecdotal evidence gained from examining attorneys who have been using T-Search. Under existing examination procedures, when an examiner finds a relevant registered or pending trademark that will be cited under section 2(d) of the Lanham Act, the examiner must obtain a photocopy of the record for mailing to the applicant from the existing paper records in the Trademark Search Library.

Over the past months, examining attorneys have found many registrations on T-Search for which no corresponding paper record existed in the Search Library. Additionally, there is a very high incidence of missing or misfiled paper records of pending applications. Many examiners have commented that the paper files covering pending applications are in such poor condition that they seldom find any record of the application. Additionally, the Office has had comments from members of the bar which indicate that examining attorneys are sometimes finding "cites" on T-Search which have been missed when searches were conducted by private searchers.

Q. I understand that you recently estimated that it will cost over $600,000 to clear erroneous data out of your automated data base. Is this true? If so is this an indication of potential automation integrity problems?

A. Earlier this year, the Office of Automation provided an estimate of the cost of verifying the electronic data bases against paper source records at approximately $600,000. Since that time, the estimated errors in the electronic data base have been reduced using automated editing techniques which check internal inconsistencies and through the ongoing review processes that have been incorporated into the Office's procedures. Further, an enhancement has been proposed for the system which will give access to facsimile copies of trademark registrations. Because of the proposed proposed enhancement and general improvement in the quality of the data in trademark systems, the stated estimate is no longer relevant. The data bases will be sampled later this year to determine the need for additional measures to improve data base integrity and the associated costs.

Any integrity problems which exist in the data base generally relate to backfile data which was keyed or digitized at a single point in time and should not be seen as indicating potential for future problems. All data now being added to trademark data bases is being subjected to strict quality control to ensure accuracy of the records. Every indication is that present techniques for data capture and quality control, and future improvement on those techniques, will ensure that users of trademark systems will be assured of a high degree of integrity.

Q. I also understand that PTO has had very few contested trademark actions upheld by the Trademark Trial and Appeal Board. If this is so, how will automation have any effect on registration quality?

A. First, relative to appeals filed in all contested trademark actions that go to hearing at the Trademark Trial and Appeal Board, the examiner's action is upheld in approximately 76% of the cases. (The examiner's action was affirmed in 141 of 185 cases heard between April 1984 and April 1985.) In situations where the contested trademark action involves searches by examining attorneys of trademark registrations, i.e., appeals of refusals of registration under section 2(d) of the Lanham Act, the actions of examining attorneys are affirmed at a higher rate. During the same period, examining attorneys' refusals under section 2(d) were affirmed in 84% of the *ex parte* appeals heard by the Board. (Between April 1, 1985, and August 2, 1985, examining attorneys were affirmed in 26 of 30 cases appealed, approximately 87%.)

Automation will have an effect on registration quality because it will provide examining attorneys with more accurate and up-to-date registration and application data on which to base decisions which must be made during the examination process. Further, the logical consistencies which are inherent in an automated search file system containing several hundred thousand records, as opposed to the filing inconsistencies which occur in manual filing systems, will allow more complete and accurate searches of Office records for marks which may create the likelihood of confusion.

7. Q. The user community has complained that the automated trademark systems are not working to their satisfaction even though they have been using the monitoring system for 2 years and the retrieval and search systems for about a year. What are you doing to correct this?

A. If the "community of users" includes non-PTO employees, the only system which they are presently using is TRAM. T-Search has not been released for any public use other than controlled demonstrations conducted by the PTO. Known public complaints relative to the TRAM II system have been the same complaints registered by PTO users which are discussed below.

In view of the foregoing, we assume that the "user community" is the examining attorneys and/or clerical employees in the Trademark Examining Operation. The PTO is aware of various system problems which exist in the monitoring system (TRAM II). It has initiated ongoing maintenance and enhancement programs to solve those problems which can be handled without major system modifications and, as set forth in the revised PTO Automation Master Plan, is proposing major system enhancements to answer other concerns. The significant complaints which have been brought to the attention of the PTO concern (1) system availability (downtime), (2) slow response times, and (3) data base quality.

The problems with data base quality were discussed in Question 6. As stated, the PTO does have an ongoing project to deal with problems in this area and has initiated quality control programs which should result in continued improvements in the overall quality of information in both TRAM and T-Search, which share the same data. The other two problems with TRAM are interrelated in that the central processing unit (CPU) which supports all TRAM system operations is nearing capacity and is not state-of-the-art. The long-term solution to these problems is to introduce state-of-the-art technology and increase the capacity of the system to handle the increasing demands of the PTO on its automated resources. The revised Automation Master Plan addresses this proposed solution. In the short-term, the Office of Automation has taken the following steps: 1) the prime TRAM system contractor has conducted capacity studies on the present CPU in an effort to maximize system capabilities, 2) ongoing software/programming development under the general control of the Current Systems Configuration Board is taking place to eliminate bottlenecks and improve system efficiency, and 3) the PTO is working on supplemental hardware/software enhancements, such as with the text-editing system, which will generate efficiencies in the present TRAM system and which will be able to carry over to the new Integrated Trademark System (ITS) now being proposed.

The prime PTO users of the retrieval and search system (T-Search) are the trademark examining attorneys in the Trademark Operation. The examiners have had the option of using T-Search to conduct searches for registered trademarks which consist of words only since the Fall of ~~1984~~. The portion of T-Search covering designs was not offered to examining attorneys. Although the Trademark Operation has encouraged hands-on use by examining attorneys, presently, use is not required. When use began, many complaints were registered about the quality of the data base being used for searching, "slowness" of the system, and that some needed "search" capabilities were not included in the system. The data base problems are being addressed on an ongoing basis as stated in the answer to Question 6. Again, it should be noted that current users of the system are more frequently finding registered trademarks in T-Search that cannot be located in the paper search files than vice versa. Software problems have been addressed on an ongoing basis, and as desirable capabilities are identified, change orders are proposed. At the present, given present system use, this problem appears to have been solved.

8. Q. The new trademark fees that went into effect in October of 1983 represented a significant increase. For example, registration fees jumped from $35 to $175 per class. Have these higher fees had any effect on the number of filings?

A. There is no discernible impact on the number of trademark applications filed since the advent of the higher application fees. Other than the year-end increase in filings that occurred in FY 1982 prior to the fee increase and the subsequent lag of filings in FY 1983, the rate of application filings continues to increase.

Fiscal Year	TM Applications
1979	50,672
1980	52,149
1981	55,152
1982	73,621
1983	51,014
1984	61,480
1985	64,400 estimated

Thus there is no evidence whatsoever to support the statement that increased fees have adversely affected the decisions of business to file for trademark registrations.

Q. Does the PTO have any way to measure whether small companies or individuals are foregoing registration because of these fees? What percentage of applications are filed by small businesses or individuals?

A. The PTO has no means to measure whether small companies or individuals are foregoing Federal registration because of the increased trademark fees, nor do we have the means to determine what percentage of applications are filed by small businesses or individuals. We have, however, studied the effects of the higher patent fees on this group and have found no adverse effects. While this group receives a 50% reduction in their statutory patent fees, their total fees for obtaining a patent from approximately $235 to $400, and with maintenance fees for maintaining a patent in force for 17 years it would rise to $1,600. Notwithstanding this significant increase, they file slightly more applications now than before the fee increase in FY 1983. Based, on this experience, we would expect similar effects on trademark filings.

There is no reason to expect that the increased trademark fees caused small businesses or individuals to forego registration of their marks. They have already invested in commercializing their marks by using them in commerce before filing a trademark application. The relatively small amount of fees for registration is not likely to deter them. Further, any significant drop in filings by small businesses and individuals would likely cause a decrease in the total trademark application filings -- such a decrease is not apparent.

Q. Do you have any suggestions as to how to mitigate the potential effect of the increased fees on small businesses both on registration and the possible fees they will have to pay for automated searches?

A. Based on our experience with increased filings of trademark applications and with the patent fee subsidy, the PTO does not believe that a program to mitigate the possible effects of higher registration fees for small business and individuals is necessary. However, we are considering a proposal that would mitigate possible adverse effects to small businesses and individuals caused by instituting fees for using the automated trademark search system. Under this proposal, each user would be allotted up to 6 hours free search time on the automated search system per year. This should more than adequately allow small businesses and individuals to access the information they need from the trademark data base. Also, under this proposal, the public would not subsidize those who use the data base for commercial purposes. Thus, we believe that this approach balances the needs of small businesses and individuals with the need to hold down Federal expenditures for user services.

9. Q. In your testimony you indicated that user fees are intended to recoup costs associated with providing services for which a specific beneficiary can be identified. As the PTO has interpreted its trademark user fee program as a means of offsetting all of its trademark costs, does this mean that the PTO sees no general public benefit from administering the Lanham Act and creating a public record of the marks being used in commerce? If you do believe there is a public benefit to administering the Lanham Act, how do you calculate the appropriate fee, separating out public from private benefit?

A. The fact that the PTO has established a user fee schedule to pay for the entire trademark operation does not mean that the PTO sees no general public benefit from administering the Lanham Act. There is a public benefit; however, on balance, there are more important benefits that flow directly to the trademark registrant. Thus, a certificate of registration of a trademark on the principal register is prima facie evidence of the validity of the registration, the registrant's ownership of the trademark, and the registrant's exclusive right to use the trademark in commerce. In addition, after five years of continuous use of a mark that is registered on the principal register, the right to use that mark may become incontestable. Finally, a Federal registration entitles the registrant to have access to Federal courts to prevent others from improperly using his or her trademark.

With respect to the appropriate fees to be established for the trademark operation, the PTO followed both OMB Circular No. A-25 concerning user charges and guidance in the legislative history of Public Law 97-247. Circular No. A-25 states as a general policy that, "A reasonable charge ... should be made to each identifiable recipient for a measurable unit or amount of Government services or property from which he derives a special benefit." It provides further that, "Where a service (or privilege) provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the full cost to the Federal Government of rendering that service." On the basis of this policy, the Administration proposed that fees for trademark examination and processing, as well as for products and services provided in connection with trademarks, recover 100% of the costs of these products and services. During consideration of the trademark fee schedule by the House Committee on the Judiciary, an effort was made by Mr. Frank to reduce the level of recovery to something less than 100 percentum, but the Committee did not accept his suggestion. Moreover, the PTO developed a specific fee structure for the trademark operation consistent with its recommendation for full cost recovery. A fee schedule very close to one the PTO had developed to impose full cost recovery for the trademark operation, was recommended by the House Committee on the Judiciary (House Report 97-542, page 3) and adopted by the PTO in its regulations implementing Public Law 97-247.

10. Q. In your testimony, one of the reasons you give for the increase of fees is to recoup costs of automation. Why should current users pay for a system that will be used for generations? Wouldn't it be fairer to spread out the costs over many years?

A. While we have attempted to amortize the costs of the automated systems over their life cycles, it has been necessary to meet disportionately more of the costs during the first years of the system life cycles. In the trademark area, current applicants, most of whom are long-term users of the registration system, have paid slightly more than would have been the case if we could have amortized the costs evenly over the life cycles of the systems.

11. Q. You also indicated that another reason for fee imposition was to keep the PTO from competing with commercial search firms that provide similar services to the public for a fee. How will the PTO take into consideration the fees charged by private search firms? Will the PTO charge fees for automated searches that do not underbid the private companies?

No, the PTO does not and will not consider the fees charged by the private sector when determining the fees for our services. In setting fees, we follow the guidelines of OMB Circular A-25 that does not permit consideration of the level of fees charged by the private sector or the potential fair market value of our services. When proposing fees for use of our automated trademark search system, we were required by the Circular to set fees on the basis of marginal costs of providing the service. Thus, the fees recovered are only those additional costs which we would not have incurred in performing our statutory duties.

While the PTO will not set fees by referencing fees charged by private companies and the opportunity exists that PTO fees may be lower than those of private companies, we do not believe that the PTO will compete with private companies on a significant level. First, PTO services are currently available only in our Office in Arlington, Virginia. While we contemplate expanding access to our Patent Depository Libraries, we do not believe that these limited-access services will compete with private sector offerings that have convenient, online access from anywhere in the United States. Second, the private sector offers more extensive services than the PTO, e.g., access to state registrations, common law marks, company names, and foreign registrations. Considering the nature of the private sector services, these services are not comparable to the lower-priced PTO services and are not competing with PTO services.

12. Q. In your testimony you indicated that you could not think of another direct analogy to the proposed fees for access to the public documents in the trademark search rooms. Yet you also state that it is appropriate to use fees based on the memorandum A-25 put out by the Bureau of the Budget. Could you please be specific in relating this memorandum A-25 to charging fees for access to the public documents in the search rooms? Based on charging fees for the search rooms, do you envision a PTO entirely maintained by user fees? If not, why not? Where are the limits on imposing fees?

A. In September 1959, the then Bureau of the Budget, issued Circular No. A-25 entitled, "User Charges." Circular A-25 set forth the provisions for establishing user fees for all Federal activities which convey special benefits to recipients above and beyond those accruing to the public at large. According to Circular A-25, a reasonable charge should be made to each identifiable recipient for a measurable unit or amount of Government service or property from which a special benefit is derived.

Circular A-25 states that a special benefit will be considered to accrue and therefore a charge should be imposed when the beneficiary obtains more immediate or substantial gains or values (which may or may not be measurable in monetary terms) than those which accrue to the general public. Receiving a patent was cited as an example in the Circular.

It has been this Administration's policy to apply uniform principles of cost recovery for applicable Federal services. Legislation proposed by the Administration in 1982 and, with some amendments, enacted into law as Public Law 97-247, provided for increased patent and trademark user fees. Since that time, trademark owners, who derive significant benefits from trademark registration, have borne the full cost of registration. Fee revenues paid by all trademark applicants have been used to support the paper search file since FY 1983. In proposing a specific user fee for access to the automated search file, the decision was made to charge those who use the trademark search library for their own benefit, i.e., those users who provide search services for clients throughout the country but who primarily reside in the Washington, D.C., area. This decision was based on the premise that it was more appropriate to charge recipients of special benefits for those benefits rather than to pass the costs on to taxpayers.

Although the PTO proposed to charge those users who derive a very specific benefit from the automated trademark search room for access to the system, we also recognize that there are users throughout the country who have a limited and personal need to access the automated system. To accomodate these users, we plan to provide up to six hours of free time each year to all public users. We believe that would more than adequately allow these individual users to access the information they need but would not subsidize those who use the system for commercial purposes.

We do not envision that all PTO operations will be funded by user fees. In 1982, Public Law 97-247 amended the fee provisions of the patent and trademark laws to create a new fee recovery scheme. Under this scheme, statutory patent fees were set at levels that were estimated eventually to recover 100% of patent processing costs with the exception of the small entity subsidy. In the trademark area, the Commissioner was given the discretion to set fees. However, the House Committee on the Judiciary recommended in House Report 97-542, a trademark fee schedule that was estimated to recover 100% of trademark processing costs. The PTO adopted a trademark fee schedule very similar to the recommendation. Also, the Commissioner was authorized to set fees for identifiable services at an 100% recovery level. Thus, the fees established under this scheme should eventually recover 100% of processing and service costs. However, these fees were not predicated on recovering the cost of other programs in the Office that are not directly related to processing or services. For the other programs, appropriations must be requested each fiscal year.

The fee recovery scheme created by Public Law 97-247 has restrictions on the amount of fees that can be charged by the Office. Patent fees are statutory and may be adjusted only to reflect fluctuations in the Consumer Price Index. Other patent processing and patent service fees may be established by the Commissioner to recover the estimated average cost to the Office. All trademark processing and trademark service fees are set by the Commissioner to recover estimated average costs in line with the recommendation in House Report 97-542. These fees may be adjusted only after three years.

13. Q. What is the justification for funding patents out of general revenues, but not trademarks? Can't it be argued that both patent and trademark holders get commercial value at a cost to the Government and the taxpaying public?

A. With the exception of a 50% subsidy for patent fees charged to small entities, there is no difference in the approach for funding the costs of the patent operation vis-a-vis the trademark operation. The PTO originally proposed that the costs of the patent operation should be funded 50% from so-called "front end" fees (that is, filing, issue, and other fees associated with obtaining a patent) and 50% through fees charged for maintaining a patent in force. In a speech before the American Patent Law Association in November 1981, former Commissioner Mossinghoff announced this proposal and provided a list of fees to implement it. These included a $300 filing fee, a $500 issue fee, and other fees which ultimately found their way into the statutory fee schedule approved by the Congress and enacted as Public Law 97-247. Thus, in 1982, Congress accepted the essence of our proposal that both the trademark operation and, after a transitional period for maintenance fees to become fully effective, the patent operation would recover 100% of costs. The only exception, referred to above, was that when the Congress abandoned the scheme of administrative fee setting in Public Law 96-517 in favor of statutory fees, it also provided for a 50% subsidy for independent inventors, small businesses, and nonprofit organizations.

14. Q. Mr. Banner indicated in his testimony a desire to tie all trademark and patent fee increases to the consumer price index. Please comment.

A. In general, we would have no objection to tying all trademark and patent fee increases to the Consumer Price Index (CPI), after making certain that most fees actually cover the cost and so long as there is sufficient leeway to establish fees to recover full costs for new services or services which are changed substantially. The statutory patent fees under sections 41(a) and 41(b) were linked to fluctuations occurring in the CPI by Public Law 97-247. Similarly, to link fees established under 15 U.S.C. 1113 and 35 U.S.C. 41(d) to fluctuations in the CPI is, therefore, a logical control to impose. However, we would urge that the linking of fees under 35 U.S.C. 41(d) to fluctuations in the CPI become effective on January 1, 1986, to permit the PTO to make refinements in the schedule of fees established under that authority. Further, it should be recognized that actual cost changes may be greater or less than the fluctuation in the CPI in a given year. We might have some problems in a given year or 3-year cycle if cost fluctuations significantly exceed CPI fluctuations. However, these fluctuations can normally be handled without significant disruptions in service if there is available a reasonable level of carry over of excess fee income from prior years.

In reviewing the costs for the services and products for which fees are charged under section 41(d), we found that the fees established in FY 1983 are in some cases higher than cost and in other cases lower than cost. For example, we have found that the present cost of providing a patent copy is slightly in excess of $1.30 although the fee is only $1.00. On the other hand, we have found that the cost of recording a patent assignment is approximately $6.40 while the fee we currently charge is $20. Accordingly, the fee schedule that was published and will come into effect on October 5, 1985, is based on a refined cost analysis adjusted to reflect a mid-cycle inflation estimate of 6.21% for the FY 1986-88 authorization period. Once these adjustments are made, we would have no difficulty if the revised fee schedule were linked to fluctuations in the CPI for future years. Overall, the fee increases as posed under section 41(d) are less than they would be if all these fees would have been increased across-the-board by fluctuations in the CPI.

15. Q. GAO identified some major problems with PTO's trademark automation. GAO also listed a number of specific recommendations to improve the automation process, do you

intend to implement all of the recommendations, if no why not? What is your timetable for implementing the GAO recommendations? How will you continue to keep Congress informed of your progress?

A. The PTO expects to implement the four recommendations contained in the GAO report well before the end of this year. Attached is a detailed implementation plan to address the findings and recommendations of the Department's technical and management review of the PTO's automation project, which also responds to GAO's recommendations.

The Acting Commissioner of Patents and Trademarks has committed to the Secretary of Commerce that every recommendation stemming from the Department's review will be implemented.

The PTO will provide periodic status reports to the Congress on its progress toward automation, including implementation of the GAO recommendations.

Plan for Implementing Recommendations of the Management Review of Patent and Trademark Office Automation Project

R-1 **The Trademark Advisory Committee should be meeting more frequently to address user concerns.**

Assigned to: Assistant Commissioner for Trademarks, PTO

Action Steps and Completion Date:

1. Review results of past Committee meetings -- Completed.

2. Evaluate alternatives for improved Committee interaction with the PTO -- 09/16/85

3. Recommend meeting schedules and changes in Committee composition -- 10/15/85

R-2 **PTO should consider establishing other formal advisory committees to address automation and other areas of concern to user groups.**

Assigned to: Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Prepare list of possible candidates representing a broad cross-section of expertise and interest -- Completed.

2. Prepare charter of a formal automation advisory committee and submit to Office of the Secretary for review in accordance with DAO 201-2 -- 09/16/85

3. Publish appropriate information in the Federal Register, Official Gazettes, inc. -- 10/30/85

R-3 **We recommend that all parties recognize the difference in professional expertise and outlooks among trademark attorneys and computer systems staffs, and accommodate those differences in planning and communicating.**

Assigned to: Assistant Commissioner for Trademarks and Administrator for Automation, PTO

Action Steps and Completion Dates:

1. Establish dedicated team of Office of Automation, Office of Trademarks, Office of Administration and contractor personnel to work on the Integrated Trademark System -- Completed.

2. Continue to receive policy-level direction and guidance from the Trademark Configuration Management Board whose membership includes: the Assistant Commissioners for Trademarks, Administration, and Finance and Planning, Administrator for Automation, and Program Managers from Administration, Automation and Trademarks -- On-going.

R-4 **PTO should take action to deal with the problems and suggestions for the trademark users and attempt to crystalize the concerns of the trademark associations.**

Assigned to: Assistant Commissioner for Trademarks, PTO

Action Steps and Completion Dates:

1. Review results of past briefings on the automation program to the Trademark Advisory Committee and U.S. Trademark Association -- Completed.

2. Evaluate alternatives for improved briefings, and financial reports -- 09/16/85

3. Solicit recommendations from the Trademark Advisory Committee -- 10/15/85

R-5 **We recommend that PTO submit a formal organizational proposal for the Automation Staff to the Office of the Secretary to preclude future adverse effects on personnel matters.**

Assigned to: Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Draft a request for an organizational order -- 11/15/85

2. Prepare and circulate draft order for PTO approval -- 12/16/85

3. Submit request to DOC for approval -- 01/15/86

4. Incorporate DOC comments -- 02/17/86

5. Receive Departmental organization order -- 03/17/86

R-6 **We recommend that a committee should be established for the Automation Project with responsibilities similar to those of the 1990 Census Automation Committee.**

Assigned to: Assistant Secretary for Administration (Office of Management and Organization)

Action Steps and Completion Dates:

1. Prepare a list of possible committee members, including GSA representation -- 09/18/85

2. Prepare draft charter of responsibilities, circulate to staff and PTO for comment -- 09/20/85

3. Establish committee - 09/30/85

4. Conduct overview briefing -- 10/04/85

R-7 **PTO should complete its update to the Automation Master Plan before making automation selections. The plan should state the current program objections, performance requirements, and projected costs and benefits. We further recommend that the plan be updated annually and be specifically considered by the Coordinating Committee, the various boards, and the automation group to guide the automation effort.**

Assigned to: Automation Administrator, PTO

Action Steps and Completion Dates:

1. Submit draft Automation Plan to Office of Planning, Budget and Evaluation -- Completed

2. Incorporate DOC comments and prepare final report for submission to OMB with the PTO's 1987 budget request -- 09/15/85

3. Distribute copies of the OMB approved revised Automation Master Plan to the Congress, the public user community, and to all PTO staff -- 01/86

4. Prepare and submit update to the Automation Master Plan to DOC in conjunction with the PTO's 1988 Secretarial budget request -- 06/86

R-8 **Future plan submissions under the AMP should be disaggregated to provide a fuller discussion of the costs, benefits, alternatives and scheduled objectives of the project.**

Assigned to: Automation Administrator, PTO

Action Steps and Completion Dates:

1. Receive Departmental guidance on structure of plan submission--Completed.

2. Prepare and submit fiscal year 1987 Information Technology Plan according to the DOC approved concept -- 09/30/85.

3. Revise 1987 Information Technology Plan -- 10/02/85

R-9 **PTO should ensure that all future systems requirements are properly documented and communicated.**

Assigned to: Administrator for Automation, PTO

Action Steps and Completion Dates:

1. Assemble all available documentation -- Completed

2. Complete review and update of PTO Automation Master Plan -- 09/16/85

3. Initiate FY 1986 Action Plan -- 10/01/85

R-10 **We recommend that the Department's Office of Information Resources Management should work closely with PTO to ensure that all future requirements documents are submitted and responded to.**

Assigned to: Office of the Secretary, Office of Management and Information Systems

Action Steps and Completion Dates:

1. Provide PTO with IRM policies, procedures and regulations -- Completed

2. PTO to establish process to ensure compliance with policies -- Completed

R-11 **We recommend that the Office of the Secretary review the PTO procurement planning process and provide assistance to PTO in developing a procurement plan that provides an integrated approach for all the procurements related to PTO's automation efforts.**

Assigned to: Assistant Commissioner for Administration, PTO, and Assistant Secretary for Administration (Director for Procurement and Administrative Services)

Action Steps and Completion Dates:

1. PTO prepare and submit to the Office of the Secretary a description of present planning process and proposal for developing an integrated approach for automation procurements -- 09/16/85

2. Assistant Secretary for Administration review proposal and provide comments to PTO -- 09/30/85

3. PTO incorporate DOC comments -- 10/15/85

4. PTO implement revised planning process -- 11/01/85

R-12 **We recommend that the Department designate one procurement manager to oversee the procurement support for the PTO automation project. Department oversight should be strengthened.**

Assigned to: Assistant Secretary for Administration (Director for Procurement and Administrative Services)

Action Steps and Completion Dates:

1. Determine placement of procurement authority, prepare necessary delegations and coordinate as required -- 09/30/85

2. Publish delegations -- 09/30/85

R-13 **The Office of the Secretary and the PTO should review all contracts for the automation effort to ensure that adequate cost and schedule controls are in place. We also recommend that this review address the adequacy of the procurement and program support resources needed to manage these aspects of the contracts.**

Assigned to: Assistant Commissioner for Administration, PTO, and Assistant Secretary for Administration (Director for Procurement and Administrative Services)

Action Steps and Completion Dates:

1. In collaboration with the Assistant Secretary for Administration, PTO prepare detailed plan for reviewing automation contracts to ensure that adequate cost and schedule controls are in place -- 10/01/85

2. PTO submit final plan to the Office of the Assistant Secretary for review and comments -- 10/8/85

3. Jointly implement contract review plan -- 10/15/85

4. Assistant Secretary for Administration conduct review of adequacy of PTO procurement resources in collaboration with Assistant Commissioner for Administration -- 11/01/85

R-14 **The Office of the Secretary and PTO should take the actions needed to eliminate the PTO practices that have led to unauthorized actions by PTO program personnel under the PTO contracts. We also recommend that the Office of the Secretary review PTO's procedures on contract administration to ensure they are adequate.**

Assigned to: The Assistant Commissioner for Administration, PTO, and Assistant Secretary for Administration (Director for Procurement and Administrative Services

Action Steps and Completion Dates:

1. PTO submit copies of PTO policy issuances addressing ratification actions to the Office of the Assistant Secretary -- Completed

2. Assistant Secretary for Administration review PTO ratification policies and procedures and provide necessary guidances -- 09/15/85

3. PTO incorporate Office of the Secretary advice -- 09/30/85

R-15 **The Office of the Secretary should immediately provide PTO with the advice necessary to remedy the concerns GAO has with the Exchange Agreements. We also recommend that the Department thoroughly review the actions PTO proposes to take to address those issues.**

Assigned to: Assistant Secretary for Administration (Director for Procurement and Administrative Services) and Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Assistant Secretary for Administration provide guidance to PTO on proceeding with the "buy-outs" of the exchange agreements -- 09/17/85

2. PTO to proceed with negotiations to "buy-out" the exchange agreements or issue competitive RFPs for acquisition of the Trademark database -- 10/01/85

3. PTO to submit contracts through normal Departmental channels for review -- 12/01/85

The Office of the Secretary should review the PTO policies on the use of Exchange Agreements against the criteria in the Grants and Cooperative Agreement Act of 1978.

Assigned to: Assistant Secretary for Administration (Director for Procurement and Administrative Services) and Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. PTO to submit copy of the policies published in the Federal Register on May 5, 1983 to the Office of the Secretary for review -- Completed

2. Assistant Secretary for Administration provide comments on PTO policies to PTO -- 09/17/85

3. If necessary, PTO to publish a revised policy statement in the Federal Register coordinating with the Office of the Secretary -- 09/30/85

R-16 **We recommend that the Office of the Secretary and PTO give their immediate attention to the PEC contract. A joint Office of the Secretary/PTO working group should be formed to completely review all the open issues with PEC management. These include:**

- **Defining the work PRC is to do under the contract. This should include establishing the contract cost baseline and technical benchmarks on a time-phased and task-oriented basis.**
- **Establishing a technical progress/cost incurred reporting system to manage the contract effort.**
- **Concluding negotiations on the existing PRC change proposals now under review.**

The PTO should proceed to bring each issue to conclusion, reporting periodically to the Office of the Secretary.

Assigned to: Assistant Commissioner for Finance and Planning, PTO, and Assistant Secretary for Administration (Director for Procurement and Administrative Services)

Action Steps and Completion Dates:

1. PTO prepare list of PTO members for the Working Group -- Completed
2. PTO establish the Working Group with the Director for Procurement and Administrative Services (and his staff) in consultative/oversight role -- Completed
3. Working Group prepare detailed plan for resolving all outstanding issues on the PRC contract -- 09/16/85
4. Working Group complete plan of action for resolving all outstanding issues on the PRC contract -- 09/30/85
5. Working Group issue weekly status reports to the Office of the Secretary -- On-going

R-17 **The Department should take immediate steps to provide adequate data, through the Management Service Center, to allow PTO and other agencies within Commerce to reconcile their cash accounts.**

Assigned to: Assistant Secretary for Administration (Office of Management and Information Systems) and Assistant Commissioner for Finance and Planning, PTO

Action steps and Completion Dates:

1. Provide PTO with detailed information on disbursement data reported to Treasury -- Completed
2. PTO to reconcile cash account and notify the Office of the Secretary and MSC of any discrepancies -- Completed

R-18 **PTO should begin preparation of monthly statements on income and expenses in standard business formats. These reports should be disseminated to PTO managers and made available on request to external users.**

Assigned to: Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Prepare preliminary design format for use in internal monthly financial statements and provide copies to Department Office of Budget for review -- Completed
2. Evaluate suggestions for formats desired by external users -- 10/15/85
3. Circulate suggested design format to PTO managers for review and comment -- 10/30/85

4. Implement new monthly financial reports -- first quarter of FY 1986

PTO should also develop annual profit and loss statements and any other business-type reports which are appropriate to its operations.

Assigned to: Assistant Commissioner for Finance and Planning, PTO

1. Prepare preliminary design format for annual financial statement -- Completed

2. Circulate suggested design format to PTO managers for review and comment -- Completed

3. Prepare 1985 end of year financial statement -- 10/30/85

R-19 **PTO should develop formal internal policies on fees and develop plans whenever surpluses occur detailing how and to what purpose they are to be applied. These policies and plans should be developed with client and Congressional input.**

Assigned to: Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Reduce to writing the policies followed with regard to excess fees -- 09/23/85

2. Submit the proposed policies to the Office of the Secretary for review and comment -- 09/30/85

3. Receive and incorporate Office of the Secretary comments -- 10/15/85

4. Implement formal policies -- 10/30/85

R-20 **PTO should provide for annual validation of the overhead rate beginning in fiscal year 1985.**

Assigned to: Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Prepare proposed methodology for verification of overhead rates -- Completed

2. Identify and collect independent workload measures to verify proposed methodology-- Completed

3. Receive comments on proposed methodology from PTO managers -- 10/02/85

4. Test proposed methodology against 1985 actual data -- 11/15/85

5. Consult with Administration and Congressional Committees on changes to existing approved methodology -- 01/86

6. Implement appropriate changes -- On-going

R-21 **Once the revised Automation Master Plan is developed by PTO and approved by the Office of the Secretary and the PRC progress/cost control system is developed, PTO should pull together a detailed document integrating all technical issues, schedules and costs related to the entire automation effort.**

Assigned to: Assistant Commissioner for Finance and Planning, PTO

Action Steps and Completion Dates:

1. Complete the revised Automation Master Plan which contains the integration of all technical issues, schedules and costs -- 09/17/85

2. Revise the Master Plan during the Departmental and OMB review process to address any new issues which emerge -- 01/86

3. Prepare an annual update to the Master Plan -- 07/86

Plan for Implementing Recommendations of the Report on Trademark Automation

R-1 An external performance audit of the T-Search system should be conducted by an organization such as FEDSIM. The audit should include performance measurement under realistic controlled load conditions. Software and hardware system bottlenecks should be identified and documented. The audit should result in specific recommendations for improving system performance and provide a baseline for evaluating possible system upgrades.

Assigned to: Administrator for Automation, PTO

Action Steps and Completion Dates:

1. Meet with FEDSIM to discuss plans to conduct the study -- Completed

2. Complete the analysis for T-Search performance and capacity -- 10/14/85

3. Evaluate the recommendations for cost benefit justification with A/C Trademarks -- 11/01 85

4. Obtain approval of ADP Coordinating Committee 11/01/85

R-2 The results of recent TRAM/PALM system performance testing by the hardware vendor should be evaluated in detail. More extensive, independent testing and evaluation should be performed if necessary. This testing should provide a basis to improve the present system through elimination of hardware and software bottlenecks, and should also provide a baseline for consideration of possible major system upgrade.

Assigned to: Administrator for Automation, PTO

Action Steps and Completion Dates:

1. Evaluate the results from the B7700 performance analysis conducted by the hardware vendor in June and determine if more extensive, independent testing and evaluation is necessary -- Completed

2. Incorporate results from the full analysis in the long-range decision-making process regarding current systems and the integration of TRAM and T-Search -- 10/01/85

R-3 An integrated trademark automation requirements analysis should be performed and documented. The resulting document should then be used, along with a detailed summary of the functionality and performance of currently installed systems, as input to a thorough identification and analysis of system alternatives. This analysis should be completed prior to development of upgrades of specifications for any major improvements or upgrades to current trademark automation systems.

Assigned to: Administrator for Automation, PTO

Action Steps and Completion Dates:

1. Review current documents -- Completed

2. Develop integrated FRD and DRD and submit to Office of the Secretary for review and approval -- 10/15/85

3. Prepare implementation plan -- 12/31/85

R-4 **A continuing process, perhaps involving the existing Trademark Configuration Management Board, should be established for developing and documenting evolving requirements for trademark automation and for incorporating these changing requirements into the system development and support process on a controlled basis.**

Assigned to: Administrator for Automation, PTO

Action Steps and Completion Dates:

1. Review the charter of responsibilities for the TCMB to ensure there is sufficient review and control over currently evolving trademark requirements -- Completed

2. Make modifications to the charter, if necessary -- 09/20/85

3. Begin to present implementation plans for new trademark requirements to the TCMB -- 09/30/85

R-5 **A risk assessment should be performed that addresses requirements and threats relative to data integrity and system availability. This assessment should consider possible risks through public access to the system as well as use by examiners, and should cover both accidental as well as intentional data loss or system failure. It should lead to identification of failure modes and contingency plans for recovery from system failures or loss of data. This assessment will be a key input to the analysis of system alternatives for improving trademark automation systems.**

Assigned to: Administrator for Automation, PTO

Actions Steps and Completion Dates:

1. Conduct a risk analysis in conjunction with the updating, integration and documentation of trademark requirements -- 10/30/85

R-6 **A plan should be developed and implemented for measuring the effect of automation on the quality of the trademark search/registration process.**

Assigned to: Assistant Commissioner for Trademarks

Action Steps and Completion Dates:

1. Prepare draft plan for measuring the effect of automation on the quality of trademark/search registration process -- 01/86

2. Circulate plan to PTO Executive Staff and incorporate comments -- 02/86

3. Implement plan -- dependent on full use of T-Search by examiners

R-7 **The corrective actions already taken should be continued.**

Assigned to: Administrator for Automation

Action Steps and Completion Dates:

1. Identify and correct data errors resulting from missing mandatory data elements in the TRAM and T-Search databases -- Completed

2. Identify and capture images missing from the T-Search database -- Completed

3. Issue report detailing current condition of database quality and accuracy; two random samples evaluated -- 09/30/85

4. Assign missing design search codes -- 09/30/85

5. If necessary, prepare strategy for further actions to be taken to correct the text database -- 10/15/85

R-8 A plan for continuing assurance of adequate data quality for trademark automation should be developed and followed.

Assigned to: Administrator for Automation

Action Steps and Completion Dates:

1. Conduct a review of the trademark database quality assurance plan to determine if changes are needed. Solicit views of Automation and Trademark personnel -- Completed

2. If necessary, incorporate changes -- 09/03/85

3. Implement revised quality assurance plan -- 10/01/85

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN

GAO Findings		Commerce Management Team Recommendations	PTO/DOC Response
	R-1	The Trademark Advisory Committee should be meeting more frequently to address user concerns.	Review and recommendations by October 15.
	R-2	PTO should consider establishing other formal advisory committees to address automation and other areas of concern to user groups.	Charter due by September 16.
o We also recommend that the Secretary direct PTO to maintain its manual trademark system until the capabilities of its automated systems are at least equal to the manual systems.	R-3	We recommend that all parties recognize the difference in professional expertise and outlooks among trademark attorneys and computer systems staffs, and accommodate those differences in planning and communicating.	On-going.
	R-4	PTO should take action to deal with the problems and suggestions of the trademark users and attempt to crystalize the concerns of the trademark associations. (While the GAO recommendation is not explicitly addressed in these two DOC recommendations, the report narrative discusses PTO's efforts to clean up the trademark data bases by September. In the interim, the manual system is being maintained.)	Review and interaction with user groups by October 15.
	R-5	We recommend that PTO submit a formal organizational proposal for the Automation Staff to the Office of the Secretary to preclude future adverse effects on personnel matters.	Proposal to DOC by January 15, 1988.
	R-6	We recommend that a committee be established for the Automation Project with responsibilities similar to those of the 1990 Census Automation Committee.	Underway. Committee to be established by September 30.
	R-8	Future plan submissions under the AMP should be disaggregated to provide a fuller discussion of the costs, benefits, alternatives and scheduled objectives of the project.	Complete by October 2.

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN, CONTINUED

GAO Findings		Commerce Management Team Recommendations	PTO/DOC Response
o Reanalyze thoroughly the cost and benefits of PTO's trademark automation activities and ensure that any additional expenditures are justified. This analysis should (1) include updated cost information estimated according to standard practices, (2) incorporate the views of Trademark Office officials, and (3) include support for the key assumptions.	R-7	PTO should complete its update to the Automation Master Plan before making automation selections. The plan should state the current program objectives, performance requirements, and projected costs and benefits. We further recommend that the plan be updated annually and be specifically considered by the Coordinating Committee, the various boards, and the automation group to guide the automation effort.	Complete by September 15.
o Review and, if necessary, revise PTO's systems specifications to ensure that all key requirements to support the system's use by PTO personnel and by the Public are met.	R-9	PTO should ensure that all future systems requirement are properly documented and communicated.	Action plan by October 1.
	R-10	We recommend that the Department's Office of Information Resources Management should work closely with PTO to ensure that all future requirements documents are submitted and responded to.	Completed.
	R-11	We recommend that the Office of the Secretary review the PTO procurement planning process and provide assistance to PTO in developing a procurement plan that provides an integrated approach for all the procurements related to PTO's automation efforts.	Guidance to PTO by October 15. PTO process in place by November 1.
	R-12	We recommend that the Department designate one procurement manager to oversee the procurement support for the PTO automation project. Department oversight should be strengthened.	Delegation due by September 30.
	R-13	The Office of the Secretary and the PTO should review all contracts for the automation effort to ensure that adequate cost and schedule controls are in place. We also recommend that this review address the adequacy of the procurement and program support resources needed to manage these aspects of the contracts.	Plan for contract review to be implemented by October 15. Review Procurement resources due by November 1.

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN, CONTINUED

GAO Findings	Commerce Management Team Recommendations	PTO/DOC Response
	R-14 The Office of the Secretary and PTO should take the actions needed to eliminate the PTO practices that have led to unauthorized actions by PTO program personnel under the PTO contracts. We also recommend that the Office of the Secretary review PTO's procedures on contract administration to ensure they are adequate.	Policy review and corrective action by September 30.
o Make all resonable efforts to expeditiously and economically acquire unrestricted ownnership of the trademark data bases obtained through the exchange agreements. o Establish criteria for determining when future ADP resource exchange agreements should be used and develop procedures to ensure that these exchanges comply with applicable federal procurement regulations. Such criteria and procedures should also require that PTO thoroughly analyze the value of future agreements and fully assess their impacts on PTO and the public. o If PTO does not take steps to implement the above recommendations regarding exchange agreements, the Congress should consider withdrawing PTO's exchange agreement authority for ADP resource acquisitions.	R-15 The Office of the Secretary should immediately provide PTO with the advice necessary to remedy the concerns GAO has with the Exchange Agreements. We also recommend that the Department thoroughly review the actions PTO proposes to take address those issues.	Guidance to PTO by September 17. PTO action by October 1.
	The Office of the Secretary should review the PTO policies on the use of Exchange Agreements against the criteria in the Grants and Cooperative Agreement Act of 1978.	Guidance to PTO by September 17. Revised policies by September 30.

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN, CONTINUED

GAO Findings		Commerce Management Team Recommendations	PTO/DOC Response
	R-16	We recommend that the Office of the Secretary and PTO give their immediate attention to the PRC contract. A joint Office of the Secretary/PTO working group should be formed to completely review all open issues with PRC management. These include: - Defining the work PRC is to do under the contract. This should include establishing the contract cost baseline and technical benchmarks on a time-phased and task-oriented basis. - Establishing a technical progress/cost incurred reporting system to manage the contract effort. - Concluding negotiations on the existing PRC change proposals now under review. The PTO should proceed to bring each issue to conclusion, reporting periodically to the Office of the Secretary.	Working group established by July 30. Complete action plan for resolving PRC issues by September 30. Issue weekly status reports.
	R-17	The Department should take immediate steps to provide adequate data, through the Management Service Center, to allow PTO and other agencies within Commerce to reconcile their cash accounts.	Completed.
	R-18	PTO should begin preparation of monthly statements on income and expenses in standard business formats. These reports should be disseminated to PTO mangers and made available on request to external users.	Implement 1st quarter FY 1986.
		PTO should also develop annual profit and loss statements and any other business-type reports which are appropriate to its operations.	Recommended format by September 30. Implement 1st quarter FY 1986

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN CONTINUED

GAO Findings		Commerce Management Team Recommendations	PTO/DOC Response
	R-19	PTO should develop formal internal policies on fees and develop plans whenever surpluses occur detailing how and to what purpose they are to be applied. These policies and plans should be developed with client and Congressional input.	Guidance to PTO by October 15. Implement by October 30.
	R-20	PTO should provide for annual validation of the overhead rate beginning in FY 1986.	Test methodology by November 15.
	R-21	Once the revised Automation Master Plan (AMP) is developed by PTO and approved by the Office of the Secretary and the PRC progrss/cost control system is developed, PTO should pull together a detailed document integrating all technical issues, schedules and costs related to the entire automation effort.	Include in AMP for submission with budget by September 15.
		Institute for Computer Sciences and Technology Recommendations	
	R-1	An external performance audit of the T-Search system should be conducted by an organization such as FEDSIM. The audit should include performance measurement under realistic controlled load conditions. Software and hardware system bottlenecks should be identified and documented. The audit should result in specific recommendations for improving system performance and provide a baseline for evaluating possible system upgrades.	Audit by October 1. Submit recommendations to DOC for approval by November 1.

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN, CONTINUED

GAO Findings		Institute for Computer Sciences and Technology Recommendations	PTO/DOC Response
	R-2	The results of recent TRAM/PALM system performance testing by the hardware vendor should be evaluated in detail. More extensive, independent testing and evaluation should be performed if necessary. This testing should provide a basis to improve the present system through elimination of hardware and software bottlenecks, and should also provide a baseline for consideration of possible major system upgrade.	Incorporate evaluation results in long-range decision process by October 1.
	R-3	An integrated trademark automation requirements analysis should be performed and documented. The resulting document should then be used, along with a detailed summary of the functionality and performance of currently installed systems, as input to a thorough identification and analysis of system alternatives. This analysis should be completed prior to development of specifications for any major improvements or upgrades to current trademark automation systems.	Submit documentation to DOC for review by October 15. Prepare implementation plan by December 31.
	R-4	A continuing process, perhaps involving the existing Trademark Configuration Management Board (TCMB), should be established for developing and documenting evolving requirements for trademark automation and for incorporating these changing requirements into the systems development and support process on a controlled basis.	Modify TCMB charter if necessary and implement by September 30.

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN, CONTINUED

GAO Findings		Institute for Computer Sciences and Technology Recommendations	PTO/DOC Response
	R-5	A risk assessment should be performed that addresses requirements and threats relative to data integrity and system availability. This assessment should consider possible risks through public access to the system as well as use by examiners, and should cover both accidental as well as intentional data loss of system failure. It should lead to identification of failure modes and contigency plans for recovery from system failures or loss of data. This assessment will be a key input to the analysis of system alternatives for improving trademark automation systems.	Risk assessment completed by October 30.
	R-6	A plan should be developed for measuring the effect of automation on the quality of the trademark search/registration process.	Prepare and implement plan by February 1986.
	R-7	The corrective actions already being taken should be continued.	Complete by October 15.
	R-8	A plan for continuing assurance of adequate data quality for trademark automation should be developed and followed.	Prepare and implement plan by October 1.

COMPARISON OF FINDINGS — DOC AND GAO, AND ACTION PLAN, CONTINUED

GAO Findings	Institute for Computer Sciences and Technology Recommendations	PTO/DOC Response
o Until the Secretary is satisfied that PTO has appropriately reanalyzed the costs and benefits of PTO's trademark automation and reviewed the systems specifications, the Secretary should also require that any significant procurement actions regarding trademark automation efforts, including new procurements as well as modifications to or renewals of existing procurements, undergo Departmental review and approval. This should include exchange agreement procurements.		(This GAO recommendation is implicitly addressed in a number of DOC/ICST recommendations that that concern strengthened Department oversight in systems and procurement activities as well improvements in the PTO planning, systems development and procurement operations areas.)
o To ensure appropriate oversight, we recommend that the Secretary of Commerce review and approve PTO's response to the above recommendations to assure that they are properly implemented.		(Implicit in the acceptance of the report by DOC and PTO management and the joint development of an action plan to implement all recommendations.)

16. Q. You indicated in your testimony that in initial exchange agreements equal value was exchanged even though no value was placed on an agreed-to public access restriction. Why was no value placed on the public access restriction? Does including the restricted public access in the valuation alter the value that PTO received from the exchange agreement? If PTO buys out the limited public access part of the exchange agreement, does this mean that PTO received much less in the bargain?

If the buy-out costs over $3 million, how will you obtain the additional funds for the buy-out?

In retrospect, has the use of exchange agreements in this case been worthwhile and/or justified, considering the Government time and expense involved and the public outcry related to the agreement provisions?

A. The procedure used to value the exchange items basically involved the recipient placing a value on what was received. The exchange partners did not place a stated value on such limitations as were provided, even though the limitations were an important consideration during their negotiations. Without such restrictions, the exchange partners would not have been willing to invest substantial sums, which the Office estimated in 1984 to be $3.18 million, to create and provide data which in turn would be used to compete with them in their primary business of providing automated trademark data services. No value was placed on allowing these limitations since the issue did not arise, as such, during the discussions. In retrospect, had the issue arisen, we would not have been able to offer then, or now, an amount of value for such restrictions - only the exchange partners could do that.

The PTO would not have a bargain if the buy-out price to be paid for removing the restrictions objected to by the public exceeds the commercial cost of developing it under some other arrangement. Although a precise buy-out price has not yet been negotiated, based on preliminary negotiations, we believe it will not exceed $1.2 million, or approximately $2 million less than the $3.2 million cost estimate cited above. OMB has apportioned $2 million from excess trademark user fees to fund the buy-out. Should the cost of the buy-out be higher, we will request additional funds be apportioned.

We believe that the exchange agreements were worthwhile and justifiable. However, if we had it do over, we certainly would have approached the exchange agreements in a totally different way in view of the public outcry about the restrictions in the agreements and the Congressional expressions that these agreements were procurements.

17. Q. The House Report on P.L. 96-517 indicated that major capital acquisitions -- for example, computer mainframes -- should be accomplished with appropriated money. I understand that you are leasing your computer equipment rather than acquiring it by purchase. While that might technically be within the letter of the report, does it comply with the spirit of congressional intent?

A. The PTO believes it did comply with fee legislation and the spirit of Congressional intent in acquiring hardware, software, and other computer services with a mix of appropriated taxpayer funds and user fee revenues.

From a purely technical point of view, we base that statement on the following:

1. Those sections of Public Law 96-517 dealing with PTO fees and funding, i.e., Sections 2, 3, and 5 were

superseded by new fee legislation enacted on August 27, 1982, as Public Law 97-247.

2. Neither the Public Law 97-247 or its legislative history imply restrictions on the use of fee income or incorporated restrictions from Public Law 96-517.

3. The institution of statutory (subsections 41(a) and 41(b)) patent fees and the elimination of specific percentages of cost recovery, were also taken to indicate that restrictions on the use of patent fee income no longer apply. Section 41(d) also removed any reference to a specific percentage of cost recovery for patent service fees. A similar reference to trademark fee recovery percentage in section 31 of the Lanham Act was also deleted by Public Law 97-247.

From a Congressional intent point of view, the Congress has enacted three appropriations since FY 1982, each of which approved our spending both fees and taxpayer monies as we had requested to procure the automated system components that have been installed.

From a business point of view, we believe the leasing approach is preferable to an outright capital acquisition for the following two reasons:

1. Outright purchase of systems requires large expenditures of up-front funds, for which sufficient revenues do not exist and which would not be prudent until the pilot test in Group 220 is complete; and

2. Outright purchase would restrict the PTO's ability to modify and enhance specific hardware components as technology improvements and cost reductions occur.

18. Q. Was there any agreement between the Administration and users that any surplus in fees would be used to:

a. improve PTO services?

b. reduce fees for the next three year cycle?

c. reduce the level of appropriations?

A. The PTO believes that there is a direct relationship between recent user fee legislation, Public Law 97-247, and our responsibility to the public. After this legislation was passed, we characterized the law as, "a bargain between the Administration and those whom we serve to bring about significant and lasting improvements in the Office." (See, Remarks by Gerald J. Mossinghoff to the Section on Patent, Trademark and Copyright Law of the American Bar Association, August 7, 1982.) While the legislative history does not expressly provide a policy for the use of the so-called "surplus" fees, it would not be unreasonable to conclude that the surplus fees should be used in whole or in part to fund PTO improvements or reduce fees for the next 3-year fee cycle. The Administration has not established formal guidelines on using these fees, but we are drafting such guidelines.

19. Q. When you testified before the Committee you said that "there has been a fair and even-handed treatment all the way through not only in the Patent and Trademark Office but also in the courts." Yet former Patent Commissioner Schuyler, appointed by the Court as a Special Master, concluded that the Patent Office had not examined Newman's application "on its merits in accordance with usual practices?" If Mr. Newman had received the "fair and even-handed treatment" you

claim, then why would the court have felt it necessary to send the claim back to the Patent Office to be reconsidered?

I'm told that a PTO attorney caused a false sworn declaration to be filed in the U.S. District Court. The declarant subsequently recanted, saying he was told by the attorney to make the original false statement, knowing it to be false. Has any disciplinary proceeding been instituted?

A. Mr. Newman has received "fair and even-handed treatment" in our Office and the courts. Initially, an examiner, who is considered an expert in his area of technology, rejected Mr. Newman's claims on statutory grounds. This rejection was affirmed by our in-house expert tribunal, the Board of Appeals. In its opinion, the Board clearly articulated the statutory basis for rejection and cited respected scientific sources such as Scientific American for support. We do not believe that either the Board or the examiner acted in an unusual or arbitrary manner.

We do not agree with Mr. Schuyler's allegation that we deviated from normal practices. Nor do we understand the court's precise rationale for remanding the application to the PTO. Whatever the basis for remand, the PTO complied with the court's requirement to assign a different examiner and to reconsider Mr. Newman's application in light of Mr. Schuyler's report. Upon reconsideration, a new examiner made numerous objections and rejections. In reviewing the Office's action, the court stated that the PTO had, "given proper attention to the patent application, as I intended them to do following the report of the special master...."

We have no evidence that a PTO attorney knowingly "caused a false sworn declaration to be filed."

Therefore, we do not plan to institute disciplinary proceedings.

We assume that your question refers to a declaration and an affidavit (copies attached) signed by Mr. Lawrence E. Wharton. In the declaration signed on May 24, 1984, Mr. Wharton concluded that, "I cannot agree with his (Mr. Zimmerman) conclusion that Newman's motor operates at greater than 100% efficiency." After receiving further information about the invention from Mr. Zimmerman, Mr. Wharton signed an affidavit on August 1, 1984, in which he states, "Assuming the three elements of information, supplied by Mr. Zimmerman..., are correct I obtain an energy output of approximately 6 watts and efficiency of greater than 600%." While the affidavit of August 1 reports a different view, it does not contain any indication that the first declaration was known to be false when it was made.

EXHIBIT 4

STATUTORY DECLARATION

Pursuant to 28 U.S.C. §1746, Lawrence E. Wharton of 540 Calvin Lane, Rockville, Md., 20851, declares as follows:

Personal Qualifications:

I received a B.S. in Physics ('69) and a Ph.D in Physics ('76), both from the University of Maryland. My graduate research was in the field of statistical physics, which is a discipline relevant to evaluation of energy generation systems.

My pertinent work experience includes research assignments at the University of Maryland and the University of Michigan, both for NASA, and my present work since 1980 at the Goddard Space Flight Center, Greenbelt, Md., as a NASA Space Scientist. This work hat entailed extensive electrical circuit analysis and application of electromagnetic theory to space plasma physics.

The Newman Disclosure and Zimmerman tests:

Jere W. Sears, attorney for defendant in Newman v. Mossinghoff, Civil Action 83-0001 D.D.C., has supplied me with copies of application for patent Serial No. 179, 474, filed by Joseph W. Newman (henceforth "Newman") on August 18, 1980, and an affidavit of S. Mort Zimmerman, executed on May 9, 1984, and submitted on Newman's behalf [Newman's Exhibit 1, accompanying his motion for summary judgment; Appendix D accompanying Newman's reply to PTO opposition to said motion]. I have read these documents. Sears has asked me to comment on the tests of Newman's motor made by Zimmerman and the conclusion stated by him regarding efficiency in excess of 100%.

While Zimmerman relates construction details for a succession of motor prototypes, generally similar to Newman's Fig. 5 without a secondary coil, I note that he has substituted either a manual or electric relay switch for the shaft operated commutator in Newman's disclosure. This represents an additional energy input which may be signficant where the main battery input is small, e.g. 0.9 watt as set forth by Zimmerman (p. 9). Therefore, for any accurate assessment of energy input, I would expect the energy drawn by the switch relay coil to be included. I do not find any indication that Zimmerman has done so in his only specific calculations (p. 9).

Where those calculations of Zimmerman are concerned, an inconsistency is apparent. If the 55 volt rectifier output is impressed across a 10,000 ohm test resistance, the current through that load could only be 5.5 ma in accordance with Ohm's law. It is not apparent, therefore, how Zimmerman could measure 10 ma through that resistance.

Zimmerman only refers in his affidavit to use of "a simple full wave rectifier circuit" (p.9), not necessarily the full wave rectifier shown at the bottom of page 24 of his notebook. However, if that rectifier were employed and connected directly across his motor coil, as shown for the half wave rectifier on the same page, then a significant d.c. component from the battery will pass through the rectifier. In these circumstances, it is important that the battery current be measured when the rectifier circuit is loaded by the test resistance. Otherwise, the increased current drain on the battery during loading of the rectified circuit would not be included in the input, as it should be. Zimmerman does not state that his battery current was measured while the rectifier was loaded by the test resistance. In short, for this additional reason, the input power calculated by Zimmerman may be too low.

It is assumed here that the 10,000 ohm test resistance employed by Zimmerman (p.9) is other than the two 10k resistances that constitute part of his full wave rectifier (p. 24 of notebook). It is possible, of course, to effectively short the output terminals of the rectifier by connecting an ammeter across them and measure current through the rectifier resistors. However, this modifies the circuit and makes it necessary to employ a second ammeter to measure battery current simultaneously. Zimmerman does not mention use of two ammeters.

Conclusion:

For lack of more specific information concerning Zimmerman's test, and for the foregoing reasons, I cannot agree with his conclusion than Newman's motor operates at greater than 100% efficiency.

I declare under penalty of perjury that the foregoing is true and correct.

Dated: May 24, 1984

Lawrence E. Wharton
Lawrence E. Wharton

AFFIDAVIT

On May 24, 1984 I made a satutory declaration raising certain questions concerning an affidavit of S. Mort Zimmerman, executed on May 9, 1984, in support of litigation brought by Joseph W. Newman concerning patent application No. 179,474.

In subsequent telephone consversations with Mr. Zimmerman I have received information which has answered some of my questions. The relevant elements of this information is given below:

1. The rectifier was loaded by placing a 10K resistor accross the output.
2. The DC current through this output resistor was measured to be 10 MA.
3. The input power was measured simultaneous with the loading of the rectifier and was .9 watts.

Assuming this information to be correct, I draw the following conclusion. It is clear that a substantial portion of the output power is dissipated in the two 10K resistors in the rectifier circuit. This power must be regarded as part of the total output power as circuit elements could be substituted for the resistors which preform a desired task but had the same electrical effect as the resistors. For example a light bulb could be substituted for a resistor. Therefore the efficiency of the device is in substantial excess of 100%.

I have derived an expression for the power dissipated in the resistors but it involves an integral over the Fourier power spectrum of the voltage from the coil applied accross the rectifier circuit input and I do not know this power spectrum. Therefore I cannot accurately evaluate this power. I do believe, however, that it is reasonable to approximate this integral by the zero frequency result. The zero frequency limit is trivially found to be:

$$P_T = 6\,P_L$$

where P_T is the total power dissipated in all 3 resistors and P_L is the power dissipated in the load resistor. We note the result

$$P_L = R_L \langle I_L^2 \rangle \geq R_L \langle I_L \rangle^2$$

where R_L is the load resistance, I_L is the load current and the brackets denote the time average. Therefore using the measured average current to calculate the power provides a lower bound on the power.

I conclude then that:

$$P_T \gtrsim 6\,R_L \langle I_L \rangle \quad .$$

Assuming the three elements of information, supplied by Mr. Zimmerman and listed above, are correct I obtain an energy output of approximately 6 watts and an efficiency of greater than 600 % .

I swear that the above statements are true and accurate to the best of my knowledge.

Lawrence E. Wharton
LAWRENCE E. WHARTON

Sworn to and subscribed befor me on this 1st day of August, 1984.

Notary Public

My Comission Expires: 10-1-86

20. Q. Recently several serious concerns were brought to my attention by the officers of the Patent Office Professional Association. The Association maintains that you violated not only an arbitrator's initial award, as interpreted by the Federal Labor Relations Authority (FLRA), but also the arbitrator's final award. Please comment.

A. The initial award and the final award of the arbitrator referred to appears to be the awards of April 10, 1984, and May 20, 1985, respectively, of Jacob Seidenberg.

In 1981, the PTO had indicated to the Patent Office Professional Association (POPA) that it wished to renegotiate the collective-bargaining agreement between them which had been in force since 1972. In 1982, the PTO and POPA began to bargain over the ground rules for negotiating a new basic agreement. In early 1983, the PTO requested the services of the Federal Service Impasses Panel (FSIP). In mid-1983, FSIP directed the PTO and POPA to mediate/arbitrate the matter. A mediator/ arbitrator, Jacob Seidenberg, was selected and hearings were held. On April 10, 1984, Seidenberg issued a Decision accompanied by a Ground Rules Agreement. This initial award directed the parties to bargain for five calendar months under prescribed conditions. Following further negotiations, on May 20, 1985 Seidenberg issued a "Final Decision and Award". This final award indicated that the PTO and POPA should continue bargaining in accordance with the relevant terms of the April 10, 1984 Ground Rules Agreement and, under appropriate circumstances, either party could invoke the use of the FSIP.

On June 7, 1984, I notified POPA that the PTO was no longer obliged to comply with the provisions of the April 10, 1984 agreement that were not relevant. POPA alleged an unfair labor practice under chapter 71 of title 5, United States Code. The alleged violation was that the PTO had not continued all the provisions of the Arbitrator's final award. One provision in dispute is whether the Office must continue to permit six employees to act for POPA on a full-time basis indefinitely, whereas, the award, which the PTO accepted voluntarily, limited such activity to a five-month period of negotiations.

On August 27, 1985, the Regional Director (Region III) of the Federal Labor Relations Authority notified POPA that his investigation failed to find sufficient evidence to establish that the Patent and Trademark Office had committed an unfair labor practice. This notification by the Regional Director supports management's position. A copy of the notification is attached.

For a fuller understanding of the details of the negotiation between the PTO and POPA, attached are copies of an exchange of correspondence on this matter between Senator Mathias and me, dated June 28, 1985, and July 17, 1985, respectively, as well as the detailed response of the PTO to the unfair labor practice allegation of POPA.

Q. The Association proposes that you suspend the implementation of your memo of June 7, 1985 until the initial arbitrator's decision is overturned either by the Regional Director of the FLRA or further along in the appeals process. How would this proposal affect the operation of the PTO?

A. Your question is phrased in terms of the Arbitrator's initial decision being "overturned" by the FLRA. What was before the FLRA was whether we had violated the law by my interpretation of the Arbitrator's final award. As explained above, it has been determined by the Regional Director (Region III) of the Federal Labor Relations Authority that his investigation failed to find sufficient evidence to establish that the PTO has committed an unfair labor practice. Had the POPA proposal been adopted it would have permitted the continuation of the use of official time at the rate of more than 12 employees working full-time for POPA at the cost of over $500,000 a year. It would also prevent the PTO from implementing new Federal regulations. We did not agree to the POPA proposal because we believed we would be derelict in our responsibility if we were to allow POPA to continue to expend public funds in this fashion and to block new Federal regulations.

Q. The Patent Office Professional Association maintains that by taking away most of the official time they need to carry out their representational duties, you are threatening their continued viability. Would you please comment.

A. POPA is a union which has chosen not to affiliate with any national union and has a treasury of $86,000. It has chosen also to have a very low dues structure (although much of its membership is at a GS-14 level or higher) and to not use any paid representatives. Our insistence on POPA following the official time provisions in the existing agreement until it negotiates a new arrangement in no way impairs POPA's viability. All we have done is to reduce the abuse of Government funds and time and to insist on POPA using the collective bargaining process to get what it wants. When it is recognized that POPA's bargaining unit consists of only 1,350 professionals located in a common site and performing fairly similar duties, the time which POPA previously negotiated is generous rather than restrictive. Again, as mentioned above, the Regional Director did not find sufficient evidence to establish that the PTO had committed an unfair labor practice.

Please be assured that our objective in dealing with the Patent Office Professional Association is to reach agreement. To that end, we made a proposal to resolve the differences in a six-month period. Details of our proposal are found on the last page of my letter to Senator Mathias.

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

JUL 5 1985

Mr. S. Jesse Reuben
Regional Director
Federal Labor Relations Authority
1111 18th St., N.W. 7th Floor
P.O. Box 33758
Washington, D.C. 20033-0758

Re: Patent Office Professional
Association ULP Charge and
Request for TRO
Case No. 3-CA-50396

Dear Mr. Reuben:

This is in response to an unfair labor practice charge filed against the Patent and Trademark Office (PTO) by the Patent Office Professional Association (POPA) on June 24, 1985.[1] The charge alleges that the PTO has "declared it would not comply with the provisions of the arbitrator's Ground Rules award." POPA claims not only does PTO's interpretation of the award consitute an unlawful unilateral action but also that POPA will suffer such irreparable harm that a temporary restraining order (TRO) is warranted.

ULP Not Proper Forum to Resolve Disagreement

The present contentions by POPA stem from a May 20, 1985 decision by Arbitrator Jacob Seidenberg that the parties should continue to bargain in accordance with the "relevant terms" of his earlier April 10, 1984 Ground Rules Agreement. On June 7, 1985, the Acting Commissioner of the PTO issued his interpretation of the Arbitrator Seidenberg's award, specifying his view of which provisions are "relevant." POPA disagrees with PTO's view of which terms are "relevant" and, therefore, which terms continue.

The above statement by itself should make it clear that if POPA disagrees with PTO over which Ground Rules provisions continue, it can go back to the Arbitrator or can file a grievance and seek a determination by another Arbitrator. Such contentions do not constitute the basis for an unfair labor practice charge. In order to understand why POPA does not want to go back to the Arbitrator and why PTO's actions are fully justified, it is necessary to recount the rather lengthy and frustrating effort by the PTO to negotiate a new basic agreement.

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[1] POPA's charge is dated May 29, 1985, prior to the alleged unlawful act of June 7, 1985. The charge is certified to have been served on June 24, 1985 and was received by the PTO on June 26, 1985.

Relevant Background

1. The current basic agreement is a 1972 document which the parties from time to time have amended or supplemented on matters which POPA deemed important, such as broadening the scope of the grievance procedure when the Statute broadened the scope previously allowed under Executive Order 11491. The Commissioner of the PTO, on October 21, 1981, provided notice to POPA that the Office wished to terminate the old agreement and to replace it with a successor agreement. He requested that the parties meet within 30 days to begin bargaining on ground rules.

Thereafter, POPA began a series of stalling techniques which persist to this very day. On November 20, 1981, POPA's then President responded that the union could not select its negotiation team until the Office explained the problems and concerns that motivated the request to negotiate a successor agreement (Attachment A). Upon the Office's submission of its explanation, POPA took a month to respond on January 12, 1982, that "It is premature to negotiate ground rules before either party submits a substantive proposal," adding that such negotiation would proceed quickly "when both parties have a substantive proposal on the table" (emphasis supplied) (Attachment B). POPA's letter concluded:

> We also request that you reconsider your notice of a desire to negotiate a new basic agreement. Major negotiations are usually confrontational proceedings. The Office's programs can be launched more effectively in an atmosphere of cooperation rather than confrontation.

2. Negotiations, however, appeared imminent when POPA agreed to fold into the pending bargaining sessions another matter of great concern to PTO. That matter was the June 10, 1981 halt of use of official time by POPA that was not specifically granted by the collective bargaining agreement. POPA convinced PTO it not only had to negotiate on impact and implementation of the enforcement of the PTO's rights, but also that it had to first negotiate grounds rule to do so. The parties met 16 times on ground rules and finally reached impasse. Mediation by the Federal Mediation and Conciliation Service was unsuccessful until the negotiations were merged with the "imminent" basic agreement negotiations.

3. At the time, PTO had not realized that it had been through a trial run for the marathon in which it is now engaged, despite the forewarning in the POPA newsletter. In a front page editorial, POPA claimed that PTO's proposals posed many new problems for the union and its constituency. It went on to warn that "as a result, (of the threat seen by POPA) these negotations should last for many years" (emphasis supplied) (Attachment C).

4. It was not until September 23, 1982, that the parties first met to negotiate ground rules although POPA had yet to submit its basic agreement proposals - even though ground rules negotiations had been delayed for almost a year because POPA viewed it as necessary for both parties to present their basic agreement proposals. Such proposals by POPA were claimed to be "imminent".

5. When POPA showed up with seven members compared to PTO's six negotiators, PTO refused to grant official time for more than six. POPA contended that PTO had a nine-person team and POPA should be entitled to the same numbers. When PTO explained that it had a team of six plus three alternates, POPA responded that the Statute made no distinction between

alternates and regular members. Thereupon, as if on cue, POPA's team left the table as a group.[2]

6. POPA returned to the bargaining table for ground rules discussions on October 26, 1982. Thereafter, the parties met 15 more times, usually for not more than two hours, through January 11, 1983. PTO requested meetings to be held more frequently and for a longer duration, but POPA persistently maintained that it could not take away the time from matters of greater urgency to its membership.

7. This was followed by unsuccessful mediation over ground rules on January 20, 1983 - the twentieth meeting of the parties.

8. After PTO requested, on January 21, 1983, the assistance of the Federal Service Impasses Panel, POPA for the first time requested that PTO set forth in writing its allegations of non-negotiability. POPA did not tie its request into any specific proposals. Instead, it asked for PTO to identify all POPA ground rules proposals believed to be non-negotiable (Attachment E).

9. On February 14, 1983, POPA filed a petition for review of negotiability issues (Attachment F). Although PTO identified the question of overtime paid to POPA negotiators as the only issue of non-negotiability, POPA attempted to ensure that some legal issue would endure by raising negotiability issues on proposals that PTO did not contest. Since any agency, under normal circumstances, is foreclosed from claiming non-negotiability at a later time and since POPA had nothing to gain from presenting to the FLRA for determination proposals not in contest, POPA clearly had to have had in mind some other benefit to be derived from creating additional issues. The attendant circumstances strongly indicate that the benefit POPA hoped to derive was that a genuine legal issue could be found which could further delay the inevitable: ground rules for negotiating a basic agreement. In the alternative, PTO could be cowed into proceeding into negotiations on the basic agreement without ground rules. Consequently negotiations, unencumbered by ground rules, could go on for years as predicted in 1982 by POPA in its newsletter (Attachment C).

10. Now having set up negotiability[3] as an obstacle to resolution of the impasses by the FSIP, POPA, on February 25, 1983, requested the FSIP to decline jurisdiction. It cited as the primary reason that "Threshold Issues of Negotiability Have Been Raised." POPA appeared to further threaten that if negotiability was not enough to set a bar, POPA would file a ULP charge against the Office, too (Attachment G).

11. On March 23, 1983, the last day of the six-month period for filing, POPA filed a ULP charge, reciting among other things that the actions of the Office on September 23, 1982 had intimidated and chilled the union in the exercise of

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[2] PTO filed an unfair labor practice charge, alleging the walk out was illustrative of a planned approach by POPA to frustrate the bargaining process. The charge was dismissed without any investigation, by the FLRA Regional Office, of events leading up to the walk out. Similarly, there was no consideration of subsequent evidence confirming POPA's pattern of surface bargaining. The FLRA General Counsel upheld the dismissal, indicating he had given no consideration to the evidence which had been ignored by the Regional Director (Attachment D).

[3] The case number is ONG-806.

its rights. The dates involved speak for themselves as to POPA's strategy and the primacy of the issues raised.

12. Since POPA's arguments to the FSIP that it should decline or defer jurisdiction continued to be unsuccessful (although they did achieve a considerable delay, particularly when it is realized the impasse was over ground rules), POPA raised another impasse (on a midterm bargaining issue) as one which needed to to be resolved by the FSIP. POPA did not ask the FSIP to give quick attention to the new impasse in its own right. Instead, POPA asked the FSIP "to redirect its consideration of the parties (sic) dispute over a ground rules issue" and to give the later impasse priority attention over the earlier case (Attachment H).

13. On May 25, 1983, the FSIP directed the parties to proceed to mediation/arbitration on the ground rules impasse, but POPA resisted efforts to select a mediator/arbitrator, as indicated by the June 20, 1983 letter from PTO to the FSIP (Attachment I).

14. Never short on effort, on June 30, 1983, POPA asked the FSIP to reconsider its May 25, 1983 order (Attachment J).

15. The parties finally met with Arbitrator Seidenberg on August 1, 1983. Again POPA appeared with a nine-person team and the resolution of the matter of team size consumed almost the entire morning. Just prior to the hearing, POPA on July 20, 1983, amended its ULP charge to add to its March 23, 1983 charge an additional issue which was "inadvertently omitted." POPA then asserted that the matters alleged in the ULP charge and before the FLRA as negotiability issues should bar the Arbitrator from continuing. At the request of Arbitrator Seidenberg, the parties were requested to brief the issue of further deferring the proceedings.

16. On August 24, 1983, Arbitrator Seidenberg issued an interim order to resume proceedings (Attachment K).[4] At this point in this never ending saga, it was obvious that further proceedings would be protracted, punctuated with legal disputes, and spread out over a long period of time due to POPA's "other" obligations. That is what did occur, with hearings taking place on October 11, 1983, November 17, 1983, and January 11 and 12, 1984. Finally, after the Arbitrator's ceding to POPA's insistence upon prolonged periods for filing of briefs and reply briefs (which PTO requested need not be filed), an Arbitration award issued on April 10, 1984. During this time POPA finally presented its bargaining proposals.

17. Arbitrator Seidenberg's award set forth ground rules establishing a five-month period to negotiate. POPA filed exceptions and sought to stay the decision. The Authority, in 15 FLRA No. 184 (Attachment K), rejected POPA's contentions on August 31, 1984.

18. After unsuccessfully seeking reconsideration from the Authority, POPA finally met on October 30, 1984 to discuss the proposals of both parties. However, POPA presented "corrected" proposals and once again insisted upon having eight members at the bargaining table. Both parties submitted the issue again to the Arbitrator and he again told POPA it was not entitled to more than six representatives at the bargaining table.

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[4] It was not until September 7, 1983, that the FLRA indicated that the ULP charge would not act as a bar to the matter before the Arbitrator (Attachment L). POPA ultimately "withdrew" the charge on or about June 9, 1985.

19. Subsequently, POPA engaged in other acts designed to enmesh the parties in controversy. However, POPA refused to go back to the Arbitrator, and one of those controversies six months later was alleged to be a ULP. It is presently before the Regional Director as Case No. 3 CA-50346.

20. After the parties concluded five months of meetings, usually three days a week of 7 1/2 hours each day, the parties had agreed upon only the preamble and Article I (Recognition) out of over 30 articles. Portions of several other articles were agreed upon and the parties were still on Article IV.

21. The parties were then to await an adjudication by Arbitrator Seidenberg on what should occur next. In the interim the parties negotiated for two weeks but did not advance beyond Article IV, because POPA added four totally new sections to its proposals on that Article. On May 10, 1985, Arbitrator Seidenberg conducted a hearing which resulted in his May 20, 1985 determination that he lacked the authority to bring the negotiations to a close.

22. The parties have continued to meet three times a week, but the parties are still on Article V. Although POPA claims that the parties are going through a "first pass", it insists on bargaining to impasse each sentence and refuses to move on to the next section. POPA has added numerous new sections to its proposals and sometimes has insisted on dwelling on them for at least several weeks.

The Merits

1. POPA maintains that it is entitled to 40 hours of official time for each union representative engaged in negotiations. On page 26 of PTO's brief to the Arbitrator, before he decided the Ground Rules (Attachment M), PTO indicated it would be willing to give full-time official time status to the union negotiators for the period of a cap. Now that there is no cap, PTO believes it is not obliged to convert the status of six employees to full-time POPA officials. When such negotiations can go on for an extended period, PTO believes it is contrary to "an efficient and effective Government". This is the standard set forth in 5 U.S.C. §7101 as the basis for interpreting the Federal Service Labor-Management Relations Act. In this regard, the Authority should be aware that PTO and POPA in 1981 started mid-term negotiations on performance appraisal and have yet to complete those negotiations.

It should be noted that although PTO believes it is no longer obliged to give preparation time in any amount to POPA, it has indicated its willingness to give POPA a weekly 144-hour block of time. Thus, if POPA were to volunteer to have only three representatives come to the bargaining table, a maximum of 72 hours is consumed. Thus, POPA could have three other representatives using up to 72 hours in the aggregate for preparation or could use some other combination with the three representatives at the table. Regardless of whether or not PTO's view would be sustained by an arbitrator, PTO's actions can hardly be viewed in the draconian union-busting terms used by POPA to claim a blatant unilateral action to warrant the issuance of a ULP complaint. Moreover, there is no statutory right to preparation time.

2. POPA maintains that Section 2(f) of the Ground Rules should continue to preclude changes from being made by PTO during the pendency of negotiations. On page 20 of PTO's brief to the Arbitrator (the aforementioned Attachment M), PTO indicated its willingness to have imposed upon it such a requirement if it were limited to the capped period. Here, too, continuation beyond the capped period must be viewed as contrary to "an efficient and effective Government",

particularly in view of the extended time which negotiations will continue unless POPA suddenly shifts its tactics.

3. There is nothing in 15 FLRA No. 184, the FLRA's dismissal of POPA's exception to Arbitrator Seidenberg's first ground rules award, which in any way sanctions POPA's interpretation.

4. POPA does not desire to go back to Arbitrator Seidenberg for vindication of its claimed rights because it knows it not only will lose, but it also may get language that will sanction PTO taking steps beyond those presently proposed. Arbitrator Seidenberg clearly views the negotiations as going on for a period far beyond an additional six months. He tried, unsuccessfully, to persuade POPA to accede to impasse resolution. (See Attachment N) Moreover, he had already told POPA that:

a. its claim of past practice are "some what suspect";

b. he does not know of any agency which has had such a long period without negotiating a new contract;

c. the number of appeals by POPA pertaining to those negotiations are "legendary";

d. what has occured thus far "does violence to all my experience, and I've been involved in protracted experiences";[5]

e. bargaining cannot be allowed to frustrate the commonweal.

Irreparable Harm

1. A party which is threatened with irreparable harm would be expected to move with great haste to prevent disaster or even the shadow of such impending doom. On June 11, the day it received the Acting Commissioner's interpretation of Arbitrator Seidenberg's award, POPA placed a phone call to arrange a meeting. The next day, POPA was given the opportunity to meet with him that day but instead put off the meeting until Wednesday, June 19, 1985. Obviously, POPA did not view there was a need for a quick meeting, though the Acting Commissioner was due to go out of the country on June 21.

2. The irreparable harm alleged by POPA is that it will have "insufficient time" to perform its representational duties because PTO is insisting on POPA being limited to the official time spelled out in the existing agreement, namely up to eight hours for preparation and "reasonable" time for presentation. POPA contends this threatens its very survival. Even if one were unaware that POPA represents a unit of 1375 professionals, who are homogeneous and located in a common complex, POPA's claims obviously go past even the bounds of exaggeration or hyperbole. It is difficult to see how any union would be unable to function satisfactorily under such conditions. POPA claims it will be more than impaired; it will be destroyed!

PTO does not deny that POPA representatives may have to spend some of their own time on occasion in order to assiduously perform their duties. Even if PTO were not an agency in which the professionals have relative ease in arranging their hours or being allowed to do work on overtime on their own request, it is hardly life threatening to POPA if there are times when employees must perform union duties on other than official time.

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[5] It should be noted that the Arbitrator is the former chairman of the Federal Service Impasses Panel.

POPA further alleges that the fact it has no professional staff justifies a claim of irreparable harm. Why should POPA's self-imposed retraints give it special rights? It has chosen to not affiliate with any national union. This does not give it the right to be subsidized by PTO beyond what it has obtained through negotiations. POPA has also chosen to keep its dues down to $2.00 a pay period even though the average member is a GS-13 or GS-14. Members of the non-professional unit at PTO, represented by the NTEU, pay higher dues despite their lower salaries. Nevertheless, POPA has a treasury of over $85,000. Yet it claims that it has the right to determine not to pay professional staff and thereby transfer the financial obligation to the PTO which will have to absorb a half million dollars in lost time, as presently projected for the present fiscal year if current official time usage were to continue. In a time when PTO, like any other agency, is faced with severe budgetary constraints, it is difficult for PTO to not insist on its contractual rights. It is particulary difficult for PTO to not demand to exercise its contractual rights previously insisted upon in June 1981 but which were held in abeyance upon the promise of the renegotiation of the entire agreement. It is now July 1985 and POPA not only claims it has the right to bar such enforcement, but also that it will suffer irreparable harm!

CONCLUSION

From the history which has been recounted, it should be obvious that POPA is once again trying to justify its unwarranted actions by accusing PTO of wrongdoing. Since it has been unsuccessful in the past (although successful in continuing its deep freeze on negotiations) it has escalated its cries even higher. The claims of "irreparable harm" should give no higher weight to such contentions. If POPA desires to contest PTO's interpretations, it should seek arbitration. It should not be allowed to continue to abuse the processes of the FLRA.

If POPA believes it should have more official time, its recourse should be through collective bargaining and not through litigation.

Sincerely,

Bruce D. Warner
for

Hugh D. Jascourt, Chief
Office Of Labor Counsel
Patent and Trademark Office
P.O. Box 2942
Arlington, Virginia 22202
(703) 557-3643

Enclosures

Certificate of Service

This certifies that the attached response to an unfair labor practice charge, with attachments, in Case No. 3-CA-50396 was served as follows on this date:

By hand delivery to:

Mr. S. Jesse Reuben
Regional Director
Federal Labor Relations Authority
1111 18th Street, N.W., 7th Floor
Washington, D.C. 20033-0758

By certified mail, return receipt requested to:

Marni E. Byrum
Attorney at Law
Suite 708
2009 N. Fourteenth Street
Arlington, Virginia 22201

Ronald J. Stern
President
Patent Office Professional Association
Box 2745
Arlington, Virginia 22202

Bruce A. Wasman

July 5, 1985
Date

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

To: Gerald J. Mossinghoff,
Commissioner of Patents
and Trademarks

Date: November 20, 1981

From: Alan P. Douglas,
President, POPA

Subj: Management's Concern with the Basic Agreement

Your request to renegotiate our basic agreement is surprising. In the past, through our frequent contacts with management, we have always solicited comments and concerns in regard to our basic agreement, but we have had no indication of any dissatisfication with it.

Although we assumed any problems you were having would have been addressed during our several current negotiations, we welcome your formal contact and stand ready to institute whatever changes would lead to the stronger patent examination system desired by all of us.

We suggest that in order to make future negotiations more productive than we have currently experienced in the performance appraisal area, you communicate to us the nature of your problems and concerns so that we may intelligently pick a team from our membership that will be able to help you resolve your problems expeditiously.

[illegible]
Nov 20 2 59 PM '81
[illegible] ENT
[illegible] FICE

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

January 12, 1982

TO: Gerald J. Mossinghoff
Commissioner of Patents and Trademarks

FROM: Edward S. Bauer
POPA President Edward S Bauer

SUBJECT: Negotiations for a new basic agreement

This is in response to your memorandum of December 3, 1981 to Alan P. Douglas concerning negotiations for a new basic agreement.

Our extension agreement of October 24, 1975 states, in the relevant portion, that "negotiations on a new basic agreement shall begin two (2) months after either party submits a proposal to the other party, but no sooner than ... ten (10) months from the anniversary date of any one year extension."

This language from the extension agreement, as well as our recollection of the discussions during negotiations, indicate that one party should submit a proposal for a new basic agreement before actual negotiations would begin.

It is premature to negotiate ground rules before either party submits a substantive proposal. Until such a proposal is submitted, we will not know when negotiations can begin. Until we receive your actual proposal so that we can appreciate the magnitude of the specific changes you wish to make, we will have no understanding of how much time negotiations will require. We would also want to appoint to our negotiating team people whose interests coincide with the specific areas that you wish change in our basic agreement. When both parties have a substantive proposal on the table, ground rule negotiations usually proceed quickly. For example, it took only one session to conclude the ground rule negotiations for our performance appraisal negotiations.

We also request that you reconsider your notice of a desire to negotiate a new basic agreement. Major negotiations are usually confrontational proceedings. The Office's new programs can be launched more effectively in an atmosphere of cooperation rather than confrontation. This is a time for working constructively toward achieving our common goals.

Patent Office Professional Association Newsletter

Volume 82, Number 7 September, 1982

WELCOME NEW EXAMINERS

POPA was organized in 1963 to provide a unified balancing force to management's excessive emphasis on production statistics in evaluating patent examiner performance. The production emphasis resulted in rewards for superficial professionals and penalties for the more diligent and conscientious.

As the exclusive representative of the patent profesisonals, POPA represents its members by negotiating agreements on working conditions, by handling grievances for our members, and by advocating policies that are in the best interest of the patent profession.

Current Negotiations

One of POPA's most effective functions as an employee representative is to negotiate written agreements with management. In these negotiations, POPA strives to create a professional working environment in which employees can take pride in their work and in which employees are treated fairly and with recognition for their contributions.

- New Basic Agreement

We have just begun negotiations for a new basic agreement. As explained in our last Newsletter, management's proposal makes no attempt to resolve any existing problems and in fact creates many new problems. As a result, these negotiations should last for many years. The POPA bargaining team is composed of Ed Wojciochowicz, Chief, Ron Stern, Larry Oresky, Ray Johnson, Gary Auton, Hiram Bernstein, Bob Tupper and Bob Warden. They are all available to you for any questions or suggestions you might have.

In addition, POPA is engaged in a number of mid-term negotiations which result from management-initiated changes in working conditions or from statutory changes. These negotiations are carried on by separate teams and include:

- Selection Procedures for Acting Examiners-in-Chief

In these negotiations, POPA has proposed a selection procedure based upon meric principles. The POPA proposal stresses the use of panel reviews of a recently written examiner's answer, a trial decision written for a pending appeal, and interviews for general scientific ability, along with written examinations in patent law and credit for experience in practicing patent law. Our proposal deemphasizes criteria such as the number of previous details, academic degrees and awards. Management is asking for maximum flexibility to select whomever it wants.

- Performance Appraisals

Over the past two years, performance appraisal negotiations were a central vehicle in POPA's efforts to achieve recognition for competent performance rather than for superficial performance. Management has challenged the negotiability of many of our proposals as violating management's desire to control the performance appraisal process. Awards and procedures for denying within-grade increases and taking other disciplinary actions are the issues that are currently being negotiated. The assistance of Federal mediators has not resolved the differences between the parties. The proposals will be submitted shortly to the Federal Service Impasses Panel for resolution.

- Space Reallocation

These negotiations cover the impact of the move of classification to Crystal Square, moves within Crystal Plaza due to the impending reorganization and space problems resulting from the large influx of new examiners. POPA is negotiating for private offices, sufficient space for all, and compensation for the time used for moving and for the extra time required to do the job when employees must travel greater distances to use search files and to see other examiners.

- New Rules Resulting from Passage of H.R. 6260

Since the new rules provide that extensions of time can be granted retroactively merely by paying a fee, an examiner's normal flow of abandonments and continuations will be disrupted. POPA has proposed adjustments to the production measurement system to take into account these disruptions.

UNITED STATES OF AMERICA
FEDERAL LABOR RELATIONS AUTHORITY
500 C STREET SW. • WASHINGTON, D.C. 20424

OFFICE OF THE GENERAL COUNSEL

Hugh D. Jascourt
Labor Law Counsel
U.S. Department of Commerce
Patent and Trademark Office
P.O. Box 2942
Arlington, VA 22202

Re: Patent Office Professional
Association
Case No. 3-CO-20030

Dear Mr. Jascourt:

Your appeal from the Regional Director's refusal to issue a complaint in the above-named case, in which it was alleged that the Charged Party violated section 7116(b)(5) and (8) of the Federal Service Labor-Management Relations Statute, has been considered carefully.

In agreement with the Regional Director, it was concluded that further proceedings on the instant charge are unwarranted. The charge alleges essentially that the Charged Party's conduct in terminating a ground rules negotiation session after a dispute arose between the parties over the composition and number of members authorized for the Charged Party's negotiating team was violative of the Statute and represented the "culmination" of tactics in which the Charged Party had engaged to avoid its bargaining obligations.

The investigation disclosed that on October 21, 1981, the Charging Party requested to enter into negotiations for a new basic agreement. In the memorandum transmitting that request, the Charging Party designated eight individuals "as the bargaining team for these negotiations," two of whom were listed as "alternates." After some preliminary correspondence between the parties, the Charging Party forwarded its bargaining proposals to the Charged Party on July 30, 1982, and noted that, pursuant to a 1975 extension agreement, negotiations for the new basic agreement would be scheduled to begin on October 1. In an August 16 memorandum to the Charging Party, the Charged Party named an eight-person negotiating team but designated no alternates. On September 14 the Charged Party similarly submitted ground rules proposals providing *inter alia* that an eight-person bargaining team would represent each side but making no distinction between "alternates" and "members" on the teams. By memorandum dated September 21, the Charging Party replaced one of the six "members" of the negotiating team designated in its October 21, 1981, memorandum and added a third "alternate." In a separate memorandum, also dated September 21, the Charging Party's chief negotiator advised the Charged Party that "[o]nly the six members from each team should be present for the negotiations." On September 23 the parties met for their first ground rules negotiation session. A six-person bargaining team represented the Charging Party. The Charged Party, represented by a seven-member team, explained that its eighth member was on leave. The parties discussed for approximately one hour whether "alternate" team members should be present at the ground rules sessions but reached no agreement. The Charging Party then announced that the Charged Party's seven-person team could remain at the bargaining table but that one of its seven team members would not be given official time. When the Charging Party asked the Charged Party to select which of its team members would not be on official time the Charged Party refused and the Charging Party made the selection. The Charged Party thereupon terminated the negotiation session. Four days later, the Charging Party filed the instant charge.

Contrary to the contentions in your appeal, an examination of all the evidence presented by the Charging Party, or otherwise independently developed, during the investigation of this case fails to support the allegation that during the period covering the above described events the Charged Party deliberately engaged in improper bargaining tactics or otherwise acted inconsistently with its bargaining obligations under the Statute.

Accordingly, your appeal is denied.[1]

For the General Counsel.

Sincerely,

Richard A. Schwarz by MBW

Richard A. Schwarz
Assistant General Counsel for Appeals

cc: Regional Director, Region 3

Edward Wojciechowicz, Director of Unfair Labor Practices, Patent Office Professional Association, P.O. Box 2745, Arlington, VA 22202

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[1] In reaching this decision on your appeal, no consideration has been given to your supplementary submission of material and arguments relating to events occurring after the Regional Director's decision not to issue a complaint in this matter.

Attachment G

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

COMMISSIONER
JAN 25 4 19 PM '83
U.S. PATENT AND TRADEMARK OFFICE

To: D.J. Stocking
Chief Spokesperson
PTO Negotiating Team

Date: January 25, 1983

From: Edward J. Wojciechowicz
Chief Spokesperson
POPA Negotiating Team

Subj: Request for Written Allegation of Non-Negotiability

During the course of the groundrules negotiations for a new basic agreement, members of the PTO negotiating team indicated orally to the POPA negotiating team that several sections of the POPA proposal appeared to be contrary to law, Government-wide rule or regulation and Commerce Department regulation and that as a result, the PTO would not bargain on these items. Attached to this letter is the amended POPA proposal which was submitted to the PTO team on January 20, 1983, at the Federal Mediation and Conciliation Service.

In accordance with 5 C.F.R. 2424.3, you are requested to identify any portions of the POPA proposal that are non-negotiable and to provide POPA with a written allegation that the duty to bargain in good faith does not extend to these items.

Certificate of Service

I hereby certify that, on January 25, 1983, I served, by CERTIFIED MAIL, a copy of the attached Request for Written Allegation of Non-Negotiability, including exhibits to:

Malcolm Baldridge
Secretary of Commerce
Department of Commerce
Washington, DC 20230

and I served, in person, a copy with exhibits to:

Gerald J. Mossinghoff
Commissioner of Patents
and Trademarks

Edward J. Wojciechowicz
Edward J. Wojciechowicz

RECEIVED
OFFICE OF THE
GENERAL COUNSEL
FEB 11 10 23 AM '83
sec of C Ofc

Sherry Brath
Rec'd 2/14/8
for D. Stocking

FEB 14 11 25 AM '83
COMMISSIONER
U.S. PATENT
AND
TRADEMARK OFFICE

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL LABOR RELATIONS AUTHORITY
WASHINGTON, D.C.

PATENT OFFICE PROFESSIONAL ASSOCIATION

Labor Organization

and

Case No.

PATENT AND TRADEMARK OFFICE,
DEPARTMENT OF COMMERCE

Activity

PETITION FOR REVIEW OF NEGOTIABILITY ISSUES

This is a petition for review of the Agency's allegation that portions of a proposal by the Patent Office Professional Association (POPA) are not within management's duty to bargain. Sections 2(f), 3, 4(c), 8 and 10 have been alleged to be non-negotiable. POPA believes these sections constitute negotiable subject matter.

The negotiability issue in this petition is not involved in an unfair labor practice charge filed by POPA.

Background

On September 23, 1982, the Patent Office Professional Association (POPA) and the Patent and Trademark Office (PTO) commenced negotiations for a new Basic Agreement. Negotiations began on the issue of ground rules and to date have dealt solely with the groundrules proposals. POPA's current groundrules proposal is attached hereto as Exhibit A. The sections at issue here are part of the Exhibit A proposal.

On January 25, 1983, POPA submitted to the Agency a request for a written allegation of non-negotiability (Exhibit B) with POPA's current proposal attached thereto. The Agency responded on January 28, 1983 (Exhibit C) by stating that it had no obligation to "identify negotiability" unless POPA identified in a written statement which proposals made during mediation were not withdrawn. The Agency then proceeded to allege that Sections 3 and 4(c) of the current POPA proposal were non-negotiable. On January 31, 1983, POPA responded, stating that the proposal attached to POPA's January 25, 1983 request for allegations of non-negotiability was in fact POPA's current position (Exhibit D). The Agency replied on February 3, 1983 (Exhibit E) by refusing to identify any other non-negotiable sections in the current POPA proposal until POPA disclosed what its final submission to the Federal Service Impasses Panel would be. As the above correspondence indicates, POPA has made a proper request for allegations of non-negotiability and has given the Agency ample opportunity to make any additional allegations concerning the remaining sections of the POPA proposal. Since the Agency has not provided any written allegations of non-negotiability concerning the remaining sections of the POPA proposal within ten (10) days after receipt of POPA's written request for such allegation, POPA, in accordance with 5 CFR 2424.3, is including in this petition for review the additional sections of the POPA proposal for which oral allegations of non-negotiability have been made during the course of negotiations.

The Agency has provided written allegations that the following sections are considered non-negotiable.

Section 3. Time

In accordance with past practice in the PTO, all POPA bargaining team members, if otherwise in a duty status, shall be authorized a reasonable amount of official time to perform all necessary and relevant activities related to these negotiations. For those members of POPA's bargaining team who are engaged in activities related to these negotiations outside of their regular work hours, they shall be on compensated overtime or compensatory time status, at the election of the employee.

Meaning of the Section

This section sets forth the scope and amount of official time authorized to the POPA bargaining team members for performing activities related to the basic contract negotiations. It authorizes a reasonable amount of official time for preparation and actual negotiations that occur during duty hours and it authorizes compensated overtime or compensatory time when such activities are performed outside the normal work hours.

The intent of this section is to: (1) clearly state the past practice of authorizing a reasonable amount of official time to POPA bargaining team members for all activities related to negotiations performed during duty hours; and (2) authorize compensation to POPA bargaining team members for such activities when they are performed outside of their regular work hours. This section is not intended to overcome any statutory or government-wide aggregate compensation limitations which may apply.

Section 4. Schedule

* * * * * *

c. If negotiations extend beyond 300 hours the schedule will be modified to add paid overtime or compensatory time sessions on Saturdays. Both POPA and the PTO recognize that such paid overtime and compensatory time may be authorized by reason of the fact that all time spent by the POPA negotiating team in actual negotiations constitutes official duty time. Any compensatory time earned can be used only after a new basic agreement is signed. POPA team members may accrue and use such compensatory time without limitation.

Meaning of the Section

This section sets forth a schedule for increasing the number of negotiation sessions, authorizes compensation for the added sessions, and states the limitations on the use of accrued compensatory time. It allows the addition of negotiation sessions on Saturdays after 300 hours of negotiations. It authorizes compensated overtime or compensatory time at the election of the employee for such sessions. It restricts the use of any compensatory time so earned to after the basic contract has been signed. It allows POPA team members to accrue such compensatory time without limitation and to carry earned compensatory time indefinitely without any restriction as to how quickly such time must be used.

The intent of the section is to: (1) provide a means for expediting the negotiations by adding additional negotiation sessions; (2) authorize compensation to POPA team members for attending such sessions; and (3) restrict the use of any such accrued compensatory time to after the signing of the new basic agreement to further expedite negotiations. This section is not intended to overcome any statutory or government-wide aggregate compensation limitations which may apply.

During the course of the negotiations, the Agency has orally indicated that the following sections appear non-negotiable; however, the Agency has not made a written allegation of non-negotiability concerning these sections.

Section 2. Attendance, Priorities, and Other Negotiations

* * * * * *

f. Except for changes in working conditions mandated by statute or government-wide regulation, negotiations regarding impact and implementation of future management changes in working conditions will be combined with these negotiations on a new basic agreement. Management recognizes its obligation to defer implementation of such proposed changes until a new basic agreement is signed, except where immediate implementation is required by an overriding exigency. For example, management recognizes that no overriding exigency exists with respect to automation and that automation of the PTO constitutes a significant impact on working conditions that would preclude implementation until negotiations on a new basic agreement are concluded.

Meaning of the Section

This section requires that for the duration of basic agreement negotiations, all negotiations on the substance of and impact and implementation of changes in working conditions which are proposed by management during basic agreement negotiations, must be combined with basic agreement negotiations. When changes in working conditions are required by statute or government-wide rule or regulation, negotiations on these chances will be conducted separate and apart from basic agreement negotiations, and will have priority over basic agreement negotiations.

The Agency will defer implementation of any management initiated proposed changes until a new basic agreement is signed, except where immediate implementation is required by an overriding exigency. This section also recognizes the proposed automation of the PTO as the type of management initiated change in working conditions which gives rise to a bargaining obligation and does not require immediate implementation. Negotiations on the proposed automation would thus be combined with basic agreement negotiations and implementation of the proposed automation would be deferred until the new basic agreement is signed.

Section 8. Attendance at Mediation

The Commissioner and the President of POPA will personally attend all mediation sessions held under the auspices of the FMCS.

Meaning of the Section

This section specifies attendance at FMCS.

The intent of this section is to expedite the negotiations by requiring that the decision makers for each side attend all mediation sessions at FMCS.

Section 10. Signing of the Agreement

The new basic agreement shall not be binding on either party until the POPA President and the Commissioner of Patents and Trademarks have signed the same, however, the Commissioner may only disapprove the new basic agreement on the basis that it is contrary to law or government-wide rule or regulation.

Meaning of the Section

This section limits the Commissioner's review of any agreement reached by the negotiating teams to questions of conflict with law and government-wide rule or regulation.

It is intended that the Commissioner may not disapprove any agreement reached by the negotiating teams on the basis of substance or desirability. Nor can the Commissioner disapprove any agreement reached by the negotiating teams on the basis that it is contrary to Departmental or Agency rule or regulation.

Ronald J. Stern

Ronald J. Stern
President, POPA

Edward J. Wojciechowicz
Chief Spokesperson
Patent Office Professional Association
P.O. Box 2745
Arlington, Virginia 22202
(703) 557-2766

List of Exhibits:

A - POPA's Current Proposal

B - January 25, 1983 Request for Written Allegation of Non-Negotiability

C - January 28, 1983 Allegation of Non-Negotiability

D - January 31, 1983 Letter of Clarification

E - February 3, 1983 Agency Refusal to Provide Further Written Allegation

---

CERTIFICATE OF SERVICE

I hereby certify that on February ~~11~~ 13, 1983, I served ~~by certified mail or~~ K in person a copy of the attached Petition for Review of Negotiability Issues, including all exhibits, to the offices of:

Malcolm Baldrige
Secretary of Commerce
Department of Commerce
Washington, D.C. 20230

Gerald J. Mossinghoff
Commissioner of Patents and Trademarks
Patent and Trademark Office
Washington, D.C. 20231

Donley J. Stocking
Chief Spokesperson
Patent and Trademark Office
Washington, D.C. 20231

Robert S. Tupper

Robert S. Tupper
Patent Office Professional Association
P.O. Box 2745
Arlington, VA 22202

Attachment I

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

RECEIVED
FEB 25 1983
GROUP 340

February 25, 1983

Mr. Howard W. Solomon
Executive Director
Federal Service Impasses Panel
500 C Street, SW
Washington, DC 20024

Attn: Ms. Gloria Crawford

Re: Department of Commerce
Patent and Trademark Office
Washington, DC, and
POPA
Case No. 83 FSIP 39

Dear Mr. Solomon:

This is the response of Patent Office Professional Association (POPA) to the request for assistance submitted by the Patent and Trademark Office (PTO). It is the position of POPA that the Panel should decline to assert jurisdiction in this case for the following reasons.

I. Threshold Issues of Negotiability Have Been Raised

In the early stages of the negotiations, the PTO negotiating team indicated orally to the POPA negotiating team that several sections of the POPA proposal (Exhibit A) appeared to be non-negotiable. As a result of these oral allegations of non-negotiability, on January 25, 1983, POPA submitted to the Agency a request for a written allegation of non-negotiability (Exhibit B) with POPA's current proposal attached thereto. The Agency responded on January 28, 1983, (Exhibit C) by stating that it had no obligation to "identify negotiability" unless POPA identified in a written statement which proposals made during mediations were not withdrawn. The Agency then proceeded to allege that Sections 3 and 4(c) of the current POPA proposal were non-negotiable. On January 31, 1983, POPA responded, stating that the proposal attached to POPA's January 25, 1983, request for allegations of non-negotiability was in fact POPA's current position (Exhibit D). The Agency replied on February 3, 1983, (Exhibit E) by refusing to identify any other non-negotiable sections in the current POPA proposal until POPA disclosed what its final submission to the Federal Service Impasses Panel would be. On February 14, 1983, POPA then filed a Petition for Review of Negotiability Issues with the Authority (Exhibit F) on five sections of the POPA proposal, which had been alleged to be non-negotiable, either orally or in writing.

The essence of the POPA position is embodied in the sections of the proposal alleged to be non-negotiable. The entire POPA proposal was carefully constructed so as to expedite basic agreement negotiations while at the same time permitting POPA to meet all of its other representational duties. Since all POPA officials are volunteers and employees of the Agency, the provisions of the POPA proposal alleged to non-negotiable are necessary to ensure that POPA can continue to effectively represent its members during the course of these negotiations.

For example, Section 2 of the POPA proposal would ensure that all other negotiations requested prior to the start of basic agreement negotiations would proceed in an orderly fashion, while new negotiations brought about by management initiated changes would be merged with the basic agreement negotiations as long as implementation of the changes was deferred.

Likewise, each of the remaining sections serve to expedite basic agreement negotiations while at the same time protecting the fundamental interests of POPA and its bargaining unit members. Sections 3 and 4(c) provide the necessary time to conduct and prepare for basic agreement negotiations along with additional negotiating sessions, without detracting from other negotiations and representational duties. Sections 8 and 10 of the POPA proposal expedite these negotiations by providing decision makers at mediation and by eliminating the possibility of time consuming conflicts arising after the negotiators reach agreement at the table.

Congress has determined that collective bargaining is in the public interest (5 USC 7101). If the public interest is to be truly served, it is essential that labor and management approach the bargaining process as equals and that equality exist in reality as well as in principle. The POPA proposal provides for that equality so that these negotiations can be conducted in an efficient and expeditious manner without adversely affecting other necessary labor-management functions within the PTO. For these reasons, these threshold issues of negotiability should be resolved by the Authority prior to the Panel asserting jurisdiction in this case.

II. Other Outstanding Issues

In addition to the Petition for Review of Negotiability Issues filed by POPA, the PTO has filed an unfair labor practice charge against POPA concerning these negotiations. The Regional Director has refused to issue a complaint in that case and the Agency has filed an appeal which is pending before the General Counsel. POPA is also preparing an unfair labor practice charge against the Agency on issues arising out of these negotiations and that charge will be presently filed with the Regional Director.

III. Current Positions of the Parties

The Agency's submission to the Panel is misleading in several respects and fails to accurately convey the current positions of the parties in these negotiations. In its request to the Panel on January 21, 1983, the Agency attached POPA's initial proposal, completely ignoring the current POPA proposal which was formally presented to the management team on January 20, 1983. POPA's current proposal is attached to this paper as Exhibit A. Likewise, the Agency has failed to inform the Panel that the parties have reached agreement and signed off on several sections common to each proposal. Specifically, Sections 2(a), 2(b), 2(d) and 9 of the POPA proposal corresponding to Sections 2(a), 2(b), 2(c) and 12 of the management proposal have been agreed to. Obviously, the parties are not at impasse on these sections. Furthermore, in its request for assistance, the Agency makes several allegations with respect to POPA positions which are untrue. POPA policy is not to prolong negotiations, nor have its actions resulted in any delay in these negotiations. On the contrary, it is the PTO which has delayed these negotiations by erecting obstacles to negotiations in the form of preconditions and by refusing to discuss all of the issues on the table. In addition, the Agency misstates POPA's position with respect to priority of negotiations and frequency of negotiations. POPA's actual position is that other negotiations requested prior to the start of these negotiations will take precedence. Since the parties have agreed and signed POPA Section 2(c), which is equivalent to management's Section 2 (b), both parties agree that other labor-management matters have greater priority over these negotiations. Finally, POPA has not proposed to limit negotiations to twice a week for two hour periods.

IV. Management's Conduct during Negotiations

From the outset in these negotiations, the management team has refused to engage in any real bargaining on the actual proposals submitted by each party. Instead, the management team identified three concepts contained in the PTO proposal and in effect demanded POPA acceptance of these concepts as a precondition to bargaining. Specifically, the Agency demanded:

1) a cap or limit on the total number of hours the parties could spend negotiating a basic agreement prior to mediation;

2) a schedule for negotiations which would have the effect of preventing POPA from fulfilling its other representational duties;

3) acceptance by POPA of an unconventional[1] procedure for resolving negotiability disputes, whereby the Panel would consider all issues, even issues for which allegations of non-negotiability had been made, prior to a formal review of negotiability by the Authority.

Having established these preconditions to bargaining, the management team refused to seriously discuss the POPA proposal, or even the remaining sections of its own proposal, unless POPA agreed in advance to these items. The management team explicitly stated that if POPA accepted these three preconditions, then all other issues on the table would be up for discussion and bargaining. Thus, POPA has never had a real opportunity to bargain during these negotiations and the negotiations are "deadlocked" only in the sense that the Agency has steadfastly refused to engage in an open discussion and negotiation on all of the issues.

V. Portions of the Agency Proposal Do Not Concern a Mandatory Subject of Bargaining

Several sections of the PTO proposal do not concern a mandatory subject of bargaining as they do not relate to "conditions of employment" within the meaning of Section 7103(a)(14) of the Statute. Specifically, section 1 of the PTO proposal requires POPA to waive its statutory right to be represented by a number of individuals equal to the number of individuals designated as representing the Agency. The PTO admits in Section 1 of its proposal that nine individuals have been designated as representing the Agency for these negotiations. The PTO also acknowledges POPA's right to a nine person bargaining team. However, Section 1 of the PTO proposal requires POPA to waive its right to utilize its full number of representatives by limiting POPA to six negotiators at the table. POPA raised this issue at the first negotiating session on September 23, 1983, and POPA has not waived its right to be represented by a nine-person team at the bargaining table. Consequently, POPA is not required to bargain to impasse over such a permissive subject of bargaining.

In addition, Section 10 of the PTO proposal requires POPA to adopt an unconventional procedure for resolving negotiability issues. During negotiations POPA pointed out to the management team that it would be highly presumptious of the parties to dictate to the Panel and Authority a radical procedure for resolving negotiability issues. Furthermore, the procedures of other agencies such as the Federal Services Impasse Panel are determined by statute and regulation and certainly do not relate to "conditions of employment" within the meaning of Section 7103(a)(14) of the statute.

In addition, Section 10 of the PTO proposal in effect requires POPA to waive its right to request the Panel not to assert jurisdiction in a particular case should the situation warrant. There are situations, as in the instant case, where denying the union the advice and guidance of the Authority at a point when it would be meaningful in the process, before a final submission to the Panel, could result in significant harm to the Union.

CONCLUSION

Inasmuch as there are threshold issues concerning the Agency's duty to bargain on several sections of the POPA proposal, sections which are critical in terms of POPA's ability to function effectively and fulfill all of its representational duties; and in view of the fact that the PTO has refused to bargain in good faith during these negotiations and has avoided substantive bargaining on a majority of the issues on the table; and whereas portions of the PTO proposal do not concern mandatory subjects of bargaining, POPA respectfully requests that the Federal Service Impasses Panel decline to assert jurisdiction over this matter.

Respectfully submitted,

Edward J. Wojciechowicz

Edward J. Wojciechowicz
Chief Spokesperson
Patent Office Professional
Association

List of Exhibits:
A - POPA's Current Proposal
B - January 25, 1983 Request for Written Allegation of Non-Negotiability
C - January 28, 1983 Allegation of Non-Negotiability
D - January 31, 1983 Letter of Clarification
E - February 3, 1983 Agency Refusal to Provide Further Written Allegation
F - February 14, 1983 Petition for Review of Negotiability Issues

---

CERTIFICATE OF SERVICE

I hereby certify that on February 25, 1983, I served in person a copy of the attached Response to the Federal Service Impasses Panel, including all exhibits, to the office of: Donley J. Stocking, Chief Spokesperson, Patent and Trademark Office, Washington, D.C. 20231 and mailed by certified mail a copy of the attached Response to the Federal Mediation and Conciliation Service.

Edward J. Wojciechowicz

Edward J. Wojciechowicz
Patent Office Professional
Association
P.O. Box 2745
Arlington, VA 22202

FEDERAL SERVICE IMPASSES PANEL

REQUEST FOR ASSISTANCE

Form Approved:
OMB No. 53-R0807

Date May 12, 1983

INSTRUCTIONS: File an original and one copy of this Request (including attachments) with the Executive Director, Federal Service Impasses Panel, 1730 K St., NW., Washington, D.C. 20006. Also serve a copy of the Request (with attachments) on the other party to the dispute and on the mediator, and submit a written statement of such service to the Executive Director

1. This is a request to the Panel, filed under the Federal Service Labor-Management Relations Statute and the Panel's regulations, to: *(Check one)*
   (a) ☒ Consider a negotiation impasse.
   (b) ☐ Approve a binding arbitration procedure for resolution of a negotiation impasse.

2. (a) Name of Agency U.S. Patent and Trademark Office
   (b) Address Washington, DC 20231 Phone No. 557-2084
   (c) Person to Contact Sam Matthews Title Chief Negotiator

3. (a) Name of Labor Organization Patent Office Professional Association
   (b) Address P.O. Box 2745, Arlington, VA 22202 Phone No. 557-0112
   (c) Person to Contact Gary Auton Title Chief Negotiator

4. Description of Bargaining Unit All PTO Professionals except Trademark Professionals

5. Number of Employees in Bargaining Unit 1200 Date Labor Agreement Expires Auto/Open

6. (a) If item 1(a) is checked, attach a written submission setting forth (1) the issues at impasse and requesting party's summary position thereon; (2) the number, length, and dates of negotiation and mediation sessions held; and (3) the name and address of the mediator.
   (b) If item 1(b) is checked, attach a written submission setting forth (1) the issues at impasse; (2) the number, length, and dates of negotiation and mediation sessions held; (3) the name and address of the mediator; (4) the issues to be submitted to the arbitrator; (5) a statement that the proposals to be submitted to the arbitrator contain no questions concerning the duty to bargain; and (6) the arbitration procedures to be used.

7. (a) Name of Individual Filing This Request Gary Auton Title Chief Negotiator
   (b) Address P.O. Box 2745, Arlington, VA 22202 Phone No. 557-0112
   (c) Signature Gary Auton

8. If this is a joint labor-management request:
   (a) Name of Other Individual Filing This Request ______ Title ______
   (b) Address ______ Phone No. ______
   (c) Signature ______

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

May 12, 1983

Executive Director
Federal Service Impasse Panel
500 'C' Street, SW
Washington, DC 20024

Dear Sir:

This is a request to have the Panel assume jurisdiction of the impasse in negotiation of a Patent and Trademark Office (PTO) reorganization and Personnel move which is to be unilaterally implemented on May 13, 1983. In view of the urgency caused by the Agency's intent to implement rather than negotiate, the Panel is further requested to redirect its consideration of the parties dispute over a groundrules issue (case no. 83FSIP39) to this emergency situation and give priority to this case.

On December 2, 1982, both the Agency and POPA negotiating teams initialled off on an agreement (Exhibit 1). The December 2, 1982, agreement contained an "Addenda," the provisions of which submitted by POPA were to be further negotiated. On May 5, 1983, the Agency requested POPA to sign a waiver (Exhibit 2) as to the Agency's current moves that "will proceed as planned." POPA's response was to request that the Agency initial off POPA's Addenda items(Ex4)On May 10, 1983, the Agency submitted its first counter proposal (Exhibit 3) to POPA. On the same day that the Agency submitted its first counterproposal, the Agency also announced that it has ordered implementation in 3 days for May 13, 1983.

At the close of May 10, 1983, both sides agreed that the negotiations were at impasse and jointly requested the assistance of the Federal Mediation and Conciliation Service (FMCS). A mediation session was held at FMCS on May 11, 1983, with no resolution of the impasse.

The attached FSIP form 1 identifies the parties and the individuals authorized to act on their behalf.

ISSUES AT IMPASSE AND SUMMARY POSITION

The issues at impasse are all those matters embodied in the POPA proposal that are inconsistent with, or ameliorate the adverse impact of Agency's unilateral implementation scheduled for May 13, 1983. The critical differences between the parties concerns the method for calculating travel time and the time when the Agency must advise unit members of their rights. The Agency's method for calculating travel time involves a theoretical prediction versus POPA's use of actual time spent. Note Agency's proposal number 6 is an attempt to reopen a clause of the agreement of December 2, 1982, which POPA considers not subject to renegotiation.

NEGOTIATION HISTORY

The parties commenced negotiations on March 12, 1981, and met approximately 35 times through December 2, 1982, resulting in the agreement of Exhibit 1. Since December 2, 1982, the parties have met 11 additional times to negotiate on the addendum items in Exhibit 1 and newly disclosed issues.

On May 11, 1983, a mediation session was held for approximately 5 hours with mediator, Mr. Emmett DeDeyne of the Federal Mediation and Conciliation Service. The parties have held an additional meeting on May 12, 1983.

REQUESTED ASSISTANCE

It is requested that the Panel resolve the deadlocked negotiations. In view of the Agency's stated intention to implement shortly, it is requested that the Panel expedite this case and give it priority over the other pending case involving the Agency and POPA (Case No. 83FSIP39).

CERTIFICATE OF SERVICE

I hereby certify that on May 12, 1983, I served in person a copy of the attached Response to the Federal Service Impasses Panel, including all exhibits, to the office of: Sam Matthews, Chief Spokesperson, Patent and Trademark Office, Washington, DC 20231, and mailed by certified mail a copy of the attached Response to the Federal Mediation and Conciliation Service.

Gary Auton

Gary Auton
Patent Office Professional
Association
P. O. Box 2745
Arlington, VA 22202

GENERAL COUNSEL OF THE
UNITED STATES DEPARTMENT OF COMMERCE
Washington, D.C. 20230

JUN 2 0 1983

Howard W. Solomon
Executive Director
Federal Service Impasses Panel
500 C Street, S.W.
Washington, D.C. 20424

Department of Commerce
Patent and Trademark Office
Washington, D.C. and POPA
Case No. 83 FSIP 39

Dear Mr. Solomon:

On June 2, 1983 you directed the parties to resolve the above-captioned impasse through mediation-arbitration by an outside third party. After we orally communicated with POPA representatives and received no affirmative response on the selection of an arbitrator, we sent on June 13, 1983, to POPA the enclosed memorandum requesting POPA to respond by the close of business June 16, 1983. To this date we have yet to receive any response other than repeated statements that POPA intends to obtain clarification of your June 2, 1983 letter.

The circumstances of this case leave little doubt as to what will happen if the Panel does not impose an arbitrator upon the parties. To put this in context, this is a dispute over ground rules! It is a case which dates back to a request made October 12, 1981, by the Office to reopen a 1972 basic agreement! It is a case in which POPA did not appear at the bargaining table until September, 1982. This case has been at the Panel since January 21, 1983! It is the same case which POPA requested the Panel to put on "indefinite hold" until the Panel resolved a subsequent impasse referred to you by POPA and now numbered as 83-FSIP-89. It is the same case over which POPA had asked the Panel to refrain from asserting its jurisdiction.

We believe that the Panel should appoint immediately an arbitrator. We further believe, under the circumstances, it is essential that the arbitrator has had experience in Federal sector mediation-arbitration of impasses. We would prefer the appointment of Edward Potter or Jerome Ross because of their experience and their apparent ability to successfully obtain resolution within a reasonably short period of time. We fear that POPA would object to Richard Bloch on the basis of what we are told his fee structure is for such cases.

We would appreciate it if you would give this request priority consideration in view of the factors previously described, including the fact that we first requested assistance on January 21, 1983.

Respectfully submitted,

Hugh D. Jascourt

Hugh D. Jascourt
Labor Law Counsel

Enclosure

UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
Address: COMMISSIONER OF PATENTS AND TRADEMARKS
Washington, D.C. 20231

Date: JUN 1 3 1983

To: Edward Wojciechowicz, Chief Spokesperson
POPA Negotiating Team

From: Donley J. Stocking, Chief Spokesperson
PTO Negotiating Team

Re: Department of Commerce
Patent and Trademark Office
Washington, D.C. and POPA
Case No. 83 FSIP 39

Subject: Selection of Med-Arbitrator

On June 2, 1983, the Federal Service Impasses Panel directed the parties to resolve the dispute referred to it on January 21, 1983, by engaging in mediation-arbitration. Unfortunately, the Panel maintains no list of those third parties who have utilized that particular method and, therefore, no listing of cases in which such med-arbitrators have presided.

When we spoke by phone earlier today, you suggested that I submit to you a list of two or three individuals I think should be considered. As it turns out, there are only three people residing in the Washington, D.C. area who we are aware have such experience. Their names, addresses, and phone numbers are listed below:

Richard I. Bloch
4335 Cathedral Ave., N.W.
Washington, D.C. 20016
Tel: 686-1140

Edward Potter
Suite 1200, 1015 15 Street, N.W.
Washington, D.C. 20005
Tel: 789-8600

Jerome Ross
6651 Weatherford Ct.
McLean, Va. 22101
Tel: 356-1429

I would appreciate it if we were to get together by the close of business Thursday, June 16, 1983, to select a med-arbitrator. I am confident whatever clarification is needed about the authority of the med-arbitrator will be obtained by the time mediator-arbitration has commenced.

Attachment L

Patent Office Professional Association Post Office Box 2745, Arlington, Virginia 22202

June 30, 1983

Mr. Howard W. Solomon
Executive Director
Federal Service Impasses Panel
500 C Street, SW
Washington, DC 20024

Re: Department of Commerce, Patent and Trademark Office,
Washington, DC, and POPA
Case No. 83 FSIP 39

REQUEST FOR RECONSIDERATION

Dear Mr. Solomon:

On May 25, 1983, the Panel determined that the issues in this case should be referred to an arbitrator for mediation and in the event that any issues are not resolved in mediation, the Panel appeared to confer upon the arbitrator the authority to dispose of some or all them by issuing a binding decision. The Panel's intent with respect to the second part of its Order is unclear and it is requested that the Panel clarify the meaning of its Order, specifically with respect to the authority of the arbitrator to issue binding decisions on threshold negotiability questions.

In paragraph 2 of its Order, the Panel appears to give the arbitrator authority to actually resolve such negotiability questions. However, the Order also states that remaining threshold negotiability questions may be resolved "in an appropriate forum," implying that arbitration is not the proper forum for resolving these questions. Indeed, if the Panel's intention is to have the arbitrator actually resolve questions concerning the underlying obligation to bargain, then it appears that the Panel's Order is in direct conflict with the Authority's policy guidance in 11 FLRA NO. 107 wherein the Authority has determined that Section 7119 of the Statute does not authorize the Panel to resolve issues as to whether there is an obligation to bargain.

In the instant negotiations, there are two disputes concerning the obligation to bargain.

In the first, the Agency has alleged that portions of the Union proposal are non-negotiable. As a result of that allegation, the Union has filed a Petition for Review of Negotiability Issues with the Authority on February 14, 1983 (Case No. 0-NG-806), and this appeal is pending before the Authority. In 11 FLRA NO. 107 at page 628, the Authority addresses precisely the same situation and states that ". . . negotiability issues which arise during the collective bargaining process must be resolved through appeal to the Authority."

The second dispute concerns the Union's obligation to bargain on portions of the Agency proposal. This has resulted in an unfair labor practice charge filed by the Union on March 23, 1983 (Case No. 3-CA-30401), wherein the Union has charged the Agency with insisting, to impasse, that the Union bargain on non-mandatory subjects of bargaining. This ULP charge is pending before the Regional Director.

The Authority has also addressed this type of duty to bargain issue in 11 FLRA NO. 107 at page 629, wherein it held that disputes which involve a party's refusal to bargain because it claims to have no obligation to bargain under the particular circumstances in which bargaining has been requested, must also be resolved by the Authority via the ULP procedures of Section 7116 of the Statute.

Insofar as the Panel's Order does confer authority to an arbitrator to resolve such duty to bargain issues, POPA believes that, in view of 11 FLRA NO. 107, the Panel's Order is beyond its jurisdiction and POPA requests that the Panel reconsider and clarify its Order so as to comply with the Authority's guidance in 11 FLRA NO. 107. Should the Panel deny this request for reconsideration, POPA requests that the Panel provide a clear statement as to why its Order is not in conflict with 11 FLRA NO. 107.

With respect to that portion of the Panel's Order directing the parties to mediation, POPA has complied by suggesting to the Agency that the parties request that the Panel assign Ms. Gloria Crawford of the Panel staff as mediator in this case. Ms. Crawford is already familiar with the issues and her appointment as mediator would assure that all actions taken on duty to bargain issues constitute official Panel action.

In the event that Ms. Crawford or another Panel member is unavailable to act as mediator in this case, POPA has suggested to the Agency that one of the following arbitrators be selected:

Mr. Larry Schultz - $350 per day

Mr. Jacob Seidenberg - $450 per day

Mr. Rolf Valtin - $500 per day

We object to the selection of Mr. Ross and Mr. Block on the basis of cost. We object to Mr. Potter on the basis of a potential bias based upon his past friendships with Agency representatives. The arbitrators we have suggested are significantly less expensive and we believe have a reputation for fairness and competence equal to the names suggested by the Agency. Mr. Seidenberg in particular appears to be a suitable arbitrator since we understand that he has been selected by the Agency for an upcoming arbitration hearing between the Agency and another union in the PTO.

The initial response of Mr. Stocking, the Agency's chief spokesperson, was that the Agency would probably object to the selection of Ms. Crawford on the basis that she was ineffective at resolving the issues at a prior meeting on May 3, 1983. We believe that Ms. Crawford was as effective as could be expected in view of the Agency representatives' lack of authority to change the Agency position. We have agreed to meet next week with Mr. Stocking on the matter of selection of an arbitrator. Mr. Stocking seemed to indicate that this would provide the Agency sufficient time to investigate and consider POPA's suggestions.

In deciding our request for reconsideration, POPA further requests that Mr. Robert J. Howlett, Chairman, disqualify himself from all proceedings relative to this case on the basis of his past personal and business relationship with Mr. Hugh Jascourt, the principal representative for the Agency.

Respectfully submitted,

Edward J. Wojciechowicz
Edward J. Wojciechowicz
Chief Spokesperson
Patent Office Professional
Association

JACOB SEIDENBERG
6318 CAVALIER CORRIDOR
FALLS CHURCH, VA. 22044

703 - 236-4467

INDUSTRIAL AND
LABOR RELATIONS
ARBITRATION

August 24, 1983

RECEIVED
AUG 26 1983
U.S. PATENT & TRADEMARK OFFICE
EMPLOYEE RELATIONS DIVISION

Mr. Donley J. Stocking
U.S. Patent and Trademark Office
P.O. Box 2942
Arlington, Virginia 22202

Mr. Edward J. Wojciechowicz
Patent Office Professional Association
P.O. Box 2745
Arlington, Virginia 22202

Re: Case No 83 FSIP 39

Gentlemen:

I am herewith enclosing my Interim Award and Decision in the above captioned case.

By this letter, I am requesting Mr. Stocking to make the necessary arrangements, including a Reporter, for the September 12, 1983 meeting.

Very truly yours,

Jacob Seidenberg

Jacob Seidenberg

Enclosures

IN THE MATTER BETWEEN :
PATENT OFFICE PROFES- :
SIONAL ASSOCIATION
and :
U.S. PATENT AND TRADEMARK :
OFFICE
Case No. 83 FSIP - 39
....

RECEIVED
AUG 26 1983
U.S. PATENT & TRADEMARK OFFICE
EMPLOYEE RELATIONS DIVISION

INTERIM AWARD AND DECISION

The Undersigned was selected by the parties on July 13, 1983, to serve as Mediator/Arbitrator in a dispute arising from the inability of the parties to negotiate a ground rules agreement to govern the negotiations for a new collective bargaining agreement to replace an existing agreement which has been in effect since 1972. In pursuance of this objective, the Undersigned held a hearing on August 1, 1983, in which the overall subject was comprehensively discussed and reviewed.

The principal impediment to effecting a resolution of the ground rules dispute was the insistance of the Union that it was inappropriate for the Mediator/Arbitrator to address issues which were currently pending for decision before the Federal Labor Relations Authority and its General Counsel.

The record shows on February 14, 1983 the Union filed with the FLRA a Petition for Review regarding the negotiability of certain Agency proposals, and on March 23, 1983 filed an Unfair Labor Practice Charge against the Agency concerning its failure to bargain in good faith.

The Union asserted that the Agency had improperly contended, inter alia, that the Union proposals dealing with overtime pay for its bargaining team when engaged in preparing for, and engaged in, negotiations, were non negotiable. The Union asserted in its ULP charge that the Agency was not bargaining in good faith by proposing a cap as to the duration of negotiations and seeking to have date set in advance for an impasse, prior to the time when an impasse was reached, as well as denying official time for all the members of the Union bargaining team.

The Agency objected to the Union's request for deferral of the issues pending before the FLRA, and urged the Mediator/Arbitrator to proceed to deal with all the proposals and counter proposals of the parties, on the ground that negotiations had been inordinately delayed by repeated technical objections interposed by the Union. The Agency stated that it had been attempting since June 10, 1981 to initiate negotiations to replace the 1972 Agreement.

The Union denied the Agency charges of its alleged dilatory tactics and maintained its legitimate efforts to invoke statutory machinery to determine and protect the legal rights of its members cannot be characterized as "stalling" or frustrating the bargaining process

Prior to the selection of the Undersigned by the parties, the Agency filed a request with the Federal Service Impasses Panel for its services. The Union requested the Panel to decline jurisdiction basically for the same reasons it has urged the Undersigned to defer action.

The Panel elected to assume jurisdiction, and on May 25, 1983 directed the parties to select a Mediator/Arbitrator. In delineating the jurisdiction of the Mediator/Arbitrator, the Panel stated in part:

> "The Arbitrator shall have the authority to mediate with respect to all issues including those about which arbitrability has been raised. Should any issue not be resolved during the initial stage, the arbitrator may dispose of them by (1) issuing a binding decision resolving some or all of the issues, and (2) declining to hear some or all of the issues until such time as any remaining threshold negotiability questions are resolved in an appropriate forum."

Pursuant to a request from the Union for a clarification of its May 25, 1983 letter, the Panel wrote the parties on July 13, 1983, stating:

> "Our letter ... was intended to provide the arbitrator with the flexibility to circumvent obligations-to-bargain problems. Thus, the arbitrator will have the authority to mediate the issues. Any remaining issues, including those about which negotiability questions have been raised, will either be the subject of a binding decision or left open, if the arbitrator declines to hear them, until negotiability issues have been resolved in an appropriate forum.
>
> "Since the arbitrator is not vested with the authority to resolve obligation-to-bargain issues, this procedure does not conflict with the policy statement recently issued by the Authority in 11 FLRA No. 107. We have authorized the arbitrator to, if possible, to avoid obligation-to-bargain problems and still resolve the impasse. This practice was clearly endorsed by the Authority in its policy statement."

As already stated, the Undersigned met with the parties on August 1, 1983 in an uninterrupted 11 hour session in which the parties stated in detail their procedural objections, as well as discussing substantively the proposals and counter proposals which were the subject matter of a ground rules agreement. At the conclusion of this meeting, the Undersigned requested the parties to submit briefs on the issue as to whether he should defer consideration of the matters now pending before the Federal Labor Relations Authority and the General Counsel.

After carefully analyzing the parties' briefs, and considering the oral arguments advanced at the August 1, 1983 hearing, we make the following Findings:

(1) We find that the most significant contribution we can make is to effect a reasonable ground rules agreement that will create the contractual framework that will facilitate good faith bargaining efforts to negotiate a basic agreement to replace the 1972 Agreement.

(2) Without ascribing any malevolent motives to

any of the parties, the record reveals that negotiations for ground rules have been unduly protracted, and we should direct our efforts to assist the parties to commence bargaining promptly for a new contract, and break the present impasse.

(3) We find that because the issues before the Federal Labor Relations Authority and General Counsel are core issues and closely related to other pending proposals, and it would not be meaningful to exclude these core issues from our consideration when we review all the issues in this dispute. Accordingly we will include these issues in our overall analysis, in seeking to reach a fair and reasonable ground rules agreement.

(4) We find that it is possible to consider and treat the threshold issues in a way that will not prejudice the statutory rights of the parties. We believe that in the course of considering these threshold issues, alternatives may arise, i.e., they may be rendered moot, they may be revised by the parties in the course of bargaining so that the alleged defects may be cured or the proposal may be accepted by the parties as part of the quid pro quo of the bargaining process. We also believe that it is possible to frame some recommendations in such a manner that they will not be finally and conclusively dispositive of the threshold issues still outstanding, and willfully preserve the legal rights of the parties, if there be such a need, if after the bargaining has been concluded, the FLRA and General Counsel still has not issued the requisite decisions.

(5) We find, in view of the mediation efforts already made by the Federal Mediation and Conciliation Service and the Federal Service Impasses Panel, and our own extended discussions on August 1, 1983, that we are unable to settle this dispute by mediation, and hereforth we will function as an arbitrator and make binding recommendations on appropriate issues after a hearing thereon.

(6) In summary, we find that in order to advance expeditiously but fairly the bargaining process, and without prejudicing the legal rights and privileges of the parties, that a formal hearing be held, properly reported, on September 12, 1983, to receive evidence, oral and testimentary, in support of the parties respective proposal and counter proposals, to enable us to frame a ground rules agreement that will permit the parties to commence good faith bargaining on the proposed basic agreement.

AWARD: We direct the Parties on September 12, 1983 to appear and present their proposals and counter proposals for consideration by Arbitrator, in order to assist him in drafting an appropriate ground rules agreement. The presence and participation by the parties at the Hearing will not constitute a waiver or abandonment of any legal position heretofore advanced by them.

Jacob Seidenberg

Jacob Seidenberg, Arbitrator

August 24, 1983

UNITED STATES OF AMERICA
FEDERAL LABOR RELATIONS AUTHORITY
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P.O. BOX 33758
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REGION 3

September 7, 1983

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Re: U.S. Patent Trademark Office (PTO)
Case 3-CA-30401

Gentlemen:

This Office has been administratively advised by the Federal Service Impasses Panel (Panel) that the same matter involved in the above-captioned unfair labor practice case is also currently pending before the Panel based upon a request for Panel assistance filed by the U.S. Patent and Tradmark Office on May 25, 1983, pursuant to Section 2471.1(a) of the Regulations.

The General Counsel has concluded, based upon the considerations discussed below, that in situations where a request is filed with the Panel to consider a negotiation impasse under Part 2471 of the Regulations, and an unfair labor practice charge is also filed with a Regional Office by any person pursuant to Part 2423 of the Regulations which charge involves the same matter pending before the Panel, the Region, once it becomes aware of such concurrent proceedings, should defer processing the unfair labor practice charge, while retaining jurisdiction over the charge, until the proceeding before the Panel has been completed. 1/

Accordingly, you are hereby advised that due to the concurrent proceeding pending before the Panel, the processing of the unfair labor practice charge will be deferred. After the Panel has completed its proceeding, the subject unfair labor practice charge will be processed and such action as appropriate will be taken.

1/ A Panel proceeding may be "completed" in a variety of ways; e.g., the Panel declines to assert jurisdiction over the matter, the parties resolve the matter and the request to the Panel for assistance is withdrawn, the Panel issues a Decision and Order or an independent arbitrator, authorized under Section 2471.6(b) of the Regulations, issues an award. See A Guide to the Disputes Resolution Procedures Used By The Federal Service Impasses Panel (November 1980), issued by the Panel as a summary of the various dispute resolution procedures which it has implemented during its first year and a half under the Statute.

The foregoing policy effectuates the purposes and policies of the Statute by providing for retention of jurisdiction over the unfair labor practice charges should the Panel decline to assert jurisdiction or should any final resolution of the matters by the Panel fail to remedy the underlying allegations in the charge, while avoiding the wasteful duplication of resources incurred by simultaneously processing the same matter in two forums and the potential for conflicting decisions and remedies.

Section 7119(c)(1) of the Statute provides that "[t]he Federal Service Impasses Panel is an entity within the Authority, the function of which is to provide assistance in resolving negotiation impasses between agencies and exclusive representatives." Section 7119 of the Statute further grants the Panel broad authority to resolve negotiation impasses arising under the Statute. Further, under Section 7119(c)(5)(C) of the Statute any final action of the Panel is binding upon the parties during the term of the agreement unless the parties agree otherwise, and failure to cooperate in and comply with a Panel Decision and Order is violative of Section 7116(a)(1) and (6) and 7116(b)(6) of the Statute.

Accordingly, in view of the Panel's integral role in effectuating the purposes and policies of the Statute, its broad authority to resolve negotiation impasses, and the fact that the Panel's processes are invoked on a voluntary basis, it was determined that where Panel assistance is requested in resolving a negotiation impasse and unfair labor practice charges have also been filed which involve the same matter which is pending before the Panel, it would best effectuate the purposes and policies of the Statute to defer processing the unfair labor practice charges until the Panel's proceedings are completed. As indicated above, this policy will avoid simultaneous processing of the same matter and duplication of efforts while protecting all rights afforded under the Statute.

Thus, upon completion of the processing of the related matter pending before the Panel, the subject unfair labor practice charge will be processed by the Regional Office.

The agent whose name is listed below may be contacted to discuss this case if you wish.

Very truly yours,

Alexander T. Graham

Alexander T. Graham
Regional Director

CASE ASSIGNED TO: Earl T. Clark, Field Agent
TELEPHONE NUMBER: (202) 653-8510

cc: Office of the General Counsel
Federal Labor Relations Authority

Office of Legal Policy
Federal Labor Relations Authority

BEFORE

JACOB SEIDENBERG

ARBITRATOR

In the Mediation/Arbitration Matter of U.S. Department of Commerce U.S. Patent and Trademark Ofice (PTO) and Patent Office Professional Association (POPA)	Case No. 83 FSIP 39

POST HEARING BRIEF OF PTO

Submitted by
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POST HEARING BRIEF OF PTO

At the request of the arbitrator, this brief is intended to consolidate the arguments and the position of PTO set forth in the proceedings of August 1, 1983, September 12, 1983[1], October 11, 1983,[2] November 17, 1983[3], and January 11[4] and January 12, 1984[5]. The purpose of the proceedings was to resolve the impasse between the parties over ground rules to negotiate a successor agreement to the parties' 1972 basic agreement (hereafter "basic agreement" or "1972 agreement"). PTO attempted to open such negotiations by a notice of October 21, 1981. The parties did not meet until September 23, 1982. After 18 meetings and unfruitful mediation, PTO, on January 21, 1983, requested assistance of the Federal Service Impasses Panel.(Panel)

The critical difference between the parties is that 1) PTO believes that the negotiation of a new agreement will take many years (which may be an understatement) unless the ground rules provide for a mechanism to ensure that the process will be concluded within a reasonable time and 2) POPA believes that it should not be forced to concentrate its resources on a matter which is of little importance or priority to it. Because this difference is so significant in terms of future impact and in terms of distance between the parties, this brief will not set forth the proposals in their numeral sequences, but instead sets them forth in groupings. The first grouping will deal with time-related proposals, which will start with Section 7 of PTO's proposal. Under that provision, we will describe the background which demonstrates the necessity for a mechanism for concluding negotiations within a reasonable time. The second grouping will deal with proposals which, in essence, call for the agency to subsidize POPA. The third grouping will deal with the remainder of the proposals.

As an index or guide to this arrangement, we will first indicate the provisions which fall under each group and the major thrust of the proposal cited. In addition, at the conclusion of the brief, we wish to bring to your attention other factors which should be taken into account in evaluating the arguments, contentions and evidence of the parties.

Summary of the Proposals

1. Time Related Proposals

a. PTO Section 7 - In hopes that the threat of third party intervention will motivate the parties to reach their "own" agreement, the parties will be declared to be at impasse if they have not reached agreement within four months. PTO believes a special procedure should be created to expedite impasse resolution. PTO proposes, as an alternative, the use of a mediator/arbitrator/facilitor who would possess the authority and power of an arbitrator and who would be present at all meetings of the parties, but would intervene only at his or her own motion. PTO would pay full costs for the arbitrator for the first three months, and the parties wuld share the costs equally thereafter.

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[1] Reference to the transcript for that date shall be referred to as TR. I. Thus, page 55 of that transcript would be noted as TR. I-55.

[2] TR. II

[3] TR. III

[4] TR. IV

[5] TR. V

POPA believes that no special procedure is needed or desirable. It does provide in Section 4c to "add" Saturday sessions after the parties have met 300 hours and if this occurs, POPA's negotiators would receive overtime or compensatory pay for such time.

b. PTO Section 4 - Negotiations will be held 4 days a week for at least six hours a day.

POPA Section 4a - The parties shall be required to negotiate not more than twice a week at sessions not beginning prior to 9:30 a.m. or ending later than 3:00 p.m. POPA does not desire to mandate a fixed number of hours, but instead desires negotiations to be some time "within" the hours stated. It normally prefers two-hour sessions. Using four hours a week as a norm envisioned by POPA, its 4c provision would go into effect once the parties had met 75 weeks.

c. PTO Section 2b - The negotiators will not have any higher priority than basic negotiations or some labor relations activity in which attendance is compelled by the Federal Labor Relations Authority or by some other similar entity.

POPA Section 2c - The negotiators will not have a higher priority than basic negotiations, except any other labor relations situation at the option of either party shall have the highest priority regardless of whether attendance is compelled.

d. PTO Section 2a - Meetings may be postponed if a party cannot have five bargaining team representatives present because of labor relations responsibilities of the type described in PTO 2b, i.e., attendance is compelled to be elsewhere.

POPA Section 2a - Meetings may be postponed if a party cannot have five bargaining team representatives present because of labor responsibilities of the type described in POPA 2c, i.e., any other labor relations activity whether preparing a grievance or meeting with management on another matter, etc. Compulsion is not a factor.

e. POPA Section 2b - If a team believes it needs additional preparation time, it has the right to cancel the next bargaining session.

PTO has no counterpart section and would envision postponement or rescheduling to be only by mutual accord.

f. PTO Section 2d - Except when the parties agree otherwise, negotiations commenced prior to September 23, 1982 will be conducted concurrently.

POPA Section 2e - If negotiations have been requested prior to September 23, 1982, they will take precedence over basic negotiations. Thus, "merit promotion" could be a basis to defer basic negotiations because POPA on November 16, 1979, requested negotiations on that subject although it has yet to submit a proposal to PTO.

g. PTO Section 2e - Negotiations on impact and implementation will be combined with basic negotiations, except if government-wide regulation or statute has mandated a change on which the union has impact and implementation rights. Described below POPA's 2f is a modified PTO proposal if there were a four-month cap as proposed in PTO Section 7.

POPA Section 2f - POPA makes the same proposal, but adds several requirements. First, PTO is obligated to defer implementation of such a change until that point in time when a new basic agreement is finally signed. Whether through inadvertance or whether intentionally phrased, this postponement of change is not dependent upon 1) the change being of the type which creates an obligation to bargain, 2) POPA having timely submitted a proposal related to such change, and 3) POPA's proposal being within the mandatory scope of bargaining. Excepted from mandated postponement is the situation where immediate implementation is required by an overriding exigency. However, POPA's proposal would declare that no overriding exigency could exist with regard to automation and that automation could not be implemented until a new basic agreement is reached.

PTO Revised Section 2e - If there were a four-month cap, PTO would defer all changes during that time, except for parking and matters involving overriding exigencies. Unless the parties agree otherwise or the new basic agreement provides otherwise, the normal impact and implementations rights and procedures would not commence until after a new basic agreement has been reached.

h. PTO Section 9 - If any of the proposals at impasse have been submitted to the FLRA for a negotiability determination, the Panel should issue its decision as if the proposal was not before the FLRA. If a proposal awarded to POPA were found by the FLRA to be non-negotiable, a time schedule is established for POPA to modify its proposal and to commence negotiations. The intent would be for POPA to have an immediate opportunity to obtain a substitute provision rather than for the non-negotiable language to be deleted and not subject to substitution until the next reopener to the contract.

POPA has no counterpart and would prefer for the FLRA to render a negotiability decision before the Panel concludes the impasse.

i. PTO Section 6f sets up a schedule for negotiations that envisions the parties attempting to reach broad conceptual agreements before trying to arrive at wording to carry out the concepts. PTO's aspiration is that the potential for agreement would be enhanced and, therefore, negotiations would be more fruitful.

POPA has no counterpart, but would prefer to go line by line and to obtain agreement on the smallest feasible components.

j. PTO Section 6a and d provides that each party have someone at the bargaining table designated as a Chief Negotiator and that negotiations cannot proceed without a Chief Negotiator for both parties.

POPA has no counterpart. It believes no requirement is necessary and that such a requirement would reduce rather than promote productive use of time.

k. PTO Section 6c provides for "specialists" to be temporarily at the bargaining table in addition to regular team members to ensure that technical information is provided and questions can be answered.

POPA has no counterpart in the belief that there is no benefit to establish a procedure in advance and that arrangements can be made on an ad hoc basis.

l. PTO Section 6e intends to keep the parties together by allowing a caucus for brief rest purposes rather than for the parties to break off negotiations for the rest of the day.

POPA has no counterpart on the basis that it provides an opportunity for delay.

m. PTO Section 8 attempts to reduce lost time by addressing negotiability appeals directly to the Director of Personnel for the Department rather than to the Secretary.

POPA has no counterpart and believes that the PTO proposal is intended to alter or waive rights possessed by POPA.

n. PTO Section 10 requires the Commissioner and POPA's president to sign the agreement within 30 days after the chief negotiators have signed it. If the Commissioner rejects the agreement, the parties are required to return to the bargaining table within 10 working days.

POPA Section 10 requires the Commissioner and the POPA president to sign the agreement, but contains no time requirements. POPA would preclude the Commissioner from disapproving the agreement on the basis of conflict with Departmental regulations.

o. POPA Section 4b - Basic agreement negotiations will begin the first core day following signing of the ground rules agreement.

PTO has no formal proposal, but obviously desires negotiations to commence as soon as possible.

2. Subsidization of POPA

a. PTO Section 3 allows POPA bargaining team members, if otherwise in a duty status, a reasonable amount of official time to perform necessary and relevant activities related to the negotiations.

POPA Section 3 provides the same thing but adds that if an employee performs such activities outside of his regular work hours he shall receive, at his election, either overtime pay or compensatory time.

b. POPA Section 4c - If negotiations were to be conducted on Saturdays POPA bargaining team members would receive either overtime pay or compensatory time.

PTO has no such proposal and opposes such payment.

c. POPA Section 6 proposes, despite wording which would appear otherwise, free use of PTO word processing equipment, typing services and computer legal research facilities.

PTO has no counterpart proposal but proposes - if there is a cap on the negotiation process - access, with four-hours notice, to word processing equipment and commercial data bases. PTO will not provide personnel to perform such services.

d. PTO Section 1 specifies that each party will have 9-person teams, consisting of six at the bargaining table. However, PTO proposes that if there were a four-month cap on negotiations it would allow all nine POPA bargaining team members to have 40 hours a week official time during the cap without regard to their presence at the bargaining table. This would obviate the need for POPA Sections 2c and d.

POPA Section 1 would allow all nine POPA team members to have official time without limitation and would allow all nine to be at the bargaining table at one time.

e. PTO Section 5 requires PTO to provide one room for negotiations and one for caucus purposes.

POPA Section 5 requires PTO to set aside such rooms at all times whether scheduled for negotiations or not and for POPA to have access at all times to the same room until negotiations are completed.

Additional PTO proposal - If a cap were placed on the duration of negotiations or if the parties were required to meet four times a week, PTO would set aside one room to be used exclusively for negotiations.

3. Miscellaneous

a. PTO Section 6b allows up to two observers.

POPA Section 7 allows no observers.

b. POPA Section 8 requires the Commissioner and the president of POPA to personally attend all mediation sessions.

PTO has no counterpart proposal and opposes such a requirement.

c. PTO Section 9 intends to declare that the Commissioner executes the agreement and the Director of Personnel for the Department approves the agreement.

POPA Section 10 declares that the agreement is not binding until signed by the Commissioner and the president of POPA. POPA believes that the PTO proposal is intended to waive the 30-day time limit for approval by the agency head, but PTO intends no such waiver if it is understood that "agency" means "Department". At the same PTO construes POPA's proposal as eliminating the step of submission to the Department.

4. Agreement

It would appear that the parties agree upon POPA 2d which is the same as PTO 2c, PTO 6g, POPA 9 which is the same as PTO 11, POPA 11, and PTO 12.

Discussion of the Proposals

1. Time Related Proposals

Since the past history of the parties vividly demonstrates why it is essential for the ground rules to establish a schedule which will encourage productive negotiations over a reasonably short period of time, that history is outlined first before discussion of the individual proposals.

POPA's theory, repeated many times to the Arbitrator, is that time should not be a consideration in the bargaining process. POPA's object is to arrive at a "good" agreement. Consistent with POPA's rationale, most negotiations have taken an extraordinarily long time. Were this not the case POPA would not be proposing in its Section 2e that any negotiations requested prior to September 23, 1982 (now over 17 months ago) will take precedence over the basic agreement negotiations. Among these prior requests is a set of POPA proposal pertaining to performance appraisal. According to POPA's Exhibit Y, it made its request prior to October 29, 1980. One part of those negotiations involved incentive awards, but agreement was not reached until July 22, 1983 (TR. II-57). The parties met over 120 times, including over 15 mediation sessions stretching from March through October, 1982 (TR. II-58, 71). The parties have yet to go back to the Panel, although Mr. Stern testified that the parties are just about ready to go to the Panel again (TR. II-122).

Space negotiations were requested by POPA on May 15, 1981 and a impasse award was rendered on November 30, 1983 (POPA Ex. V, TR. II-112). POPA on August 11, 1982, requested negotiations on an experiment involving 12 to 15 patent examiners using a card to put in a file when they removed a reference, but agreement has yet to be reached. (POPA Ex. V, TR. II-109, 118-119).

The ground rules impasse before the arbitrator was preceded by a previous impasse on ground rules relating to impact and implementation of PTO's cessation of granting official time to POPA for preparation of grievances. In that situation the parties met about 16 times including mediation and never reached agreement except that such impact and implementation bargaining would be folded into the basic negotiations. PTO attempted to enforce its right on June 10, 1981 and now two and a half years later, PTO has yet to exercise that right. (August 10, 1983 brief to Arbitrator, pp. 2-3).

The impasse before the Arbitrator should be sufficient evidence by itself. PTO requested on October 21, 1981 to reopen the 1972 basic agreement to negotiate a successor agreement. As previously documented to the Arbitrator, the parties met 17 times without success and went to mediation and the Panel without success. POPA attempted to persuade both the Panel and the Arbitrator to defer assertion of jurisdiction. The parties have met with the Arbitrator on five sets of dates and are not close to any voluntary agreement.

Without regard to the extend that POPA has been responsible for the length of time continually taken on any set of negotiations, there should be little doubt and little need for further citation or amplification of past history that the parties take a long time to reach agreement.

POPA claims this history should not be viewed negatively. POPA claims it is worth the time to arrive at a "good" product. It is unclear what POPA means by "good". If POPA were to be believed, these "good" products give rise to 100 grievances a year. (TR. III-86-87).

There are several statements that place in focus the differing approaches of the parties and make unmistakable the need to bring about a different result in this case.

1. First, POPA believes "that our situation is not all that unusual in comparison to other Federal unions." (TR.IV-107).

2. POPA places basic negotiations at a lower priority than "most" of its "other labor-management duties." (TR. I-99-101, 104-105, 105(1.23-24), 114). In fact, Mr. Stern characterized basic negotiations as a "luxury" compared to its other concerns (Tr. II-116-117).

3. The Arbitrator himself acknowledged that

negotiating a year for ground rules "is not a normal course of events" (TR. I-153).

4. POPA predicted in September, 1982 "these negotiations should last for many years" (PTO Ex. C).

5. POPA's proposed Section 2f addresses impact and implementation bargaining with respect to automation during the course of basic agreement negotiations although POPA does not view such implementation occurring until the next two or three years. (Tr. III-8).

6. The Arbitrator could not help but exclaim that the basic negotiations "cries for some celerity, some extraordinary action". (TR. IV-105).

An examination of the proposals before the Arbitrator will readily reveal that *PTO's proposals are aimed at meeting the standard established by the Panel: to reach a meaningful agreement within a reasonable time*. The same examination should reveal also that POPA's proposals not only do not meet the Panel standard but they would achieve the opposite result. In fact, the situation undoubtedly would be exacerbated and the 18-months taken in the infamous Social Security Administration negotiations will be dwarfed in comparison to the time it will take to reach a basic agreement.

a. *PTO Section 7*

This is the portion of the ground rules which aims at POPA's lack of desire to negotiate a new basic agreement and POPA's belief it has no priority obligation to do so. This is the portion of the ground rules that aims at persuading the parties to reach a voluntary agreement within a reasonable time. All other provisions are secondary in importance. In fact, most of the other sections are affected by Section 7. Without Section 7 (and also Section 4, pertaining to the frequency and duration of negotiation sessions), it will be impossible to attain the goals of *Philadelphia Naval Shipyard and Philadelphia Metal Trades Council*, 76 FSIP 12 (1976), that a bargaining schedule should "encourage productive negotiations over a reasonably short period of time" and should "enhance the prospects for sustained and conclusive bargaining." PTO believes that the prospects for endless negotiations are so likely without a preestablished impasse device that it repeatedly has rejected POPA refusals to commence basic negotiations without ground rules. (TR. I-86-87, and off-record 1/11/84).

POPA believes that there is no need for any preestablished mechanism to achieve these goals despite the prior history of bargaining and despite POPA's prediction that a "read through" of the proposals will take three months (TR. V-125-126) - the period it takes most parties to conclude negotiations. POPA claims the past procedure has worked well and that a workable agreement will produce few rights arbitrations (TR. IV-111). At the same time POPA claims that this system and the contract that needs no change results in a 100 grievances a year! (TR. II-86-87). In fact, POPA claims not one arbitration case has been settled "after we have submitted a notice of intent to arbitrate." (TR. IV-117). The most POPA believes is needed as an extra measure is to require the parties to negotiate on Saturdays once they have negotiated for 300 hours which translates to more than 75 weeks if POPA's twice a week for two hours-at-a-time schedule were to be adopted. Even then the *disincentive* of a weekend day being consumed is offset by POPA's condition that its team be paid overtime for such negotiations - which to some people can be an *incentive*. In any event, there is nothing to bring matters to an end or to create fears that prolonged negotiations could result in disadvantages.

PTO offers a choice of two alternatives. One is a four-month cap on negotiations, after which impasse procedures would commence. The principle involved is that fear of a third party decision can impel the parties to reach their own agreement. The other is use of a mediator/arbitrator/facilitator who from the beginning of negotiations can assist the parties. The goal here is the same as the cap based on the belief that a conscientious third party would not allow the parties to consume the excessive time which now characterizes the bargaining between the parties. The cost factor that would be borne by PTO from the start and then, after three months, by both parties equally could serve as a further disincentive to both parties to unduly protact bargaining.

The cap method, contrary to POPA's unsupported claims, is accepted and has been shown to achieve the results sought in the case. As reflected by PTO Exhibit FF, 35 different state and local government laws impose a time limit on the duration of negotiations before impasse is automatically declared and impasse procedures are automatically invoked. Some states have had such a system for almost two decades and Ohio, apparently in belief such a system has worked well, adopted a new law in 1983 following the same pattern. As the Arbitrator is well aware, the voluntarily imposed cap of the Steelworkers was very effective.

The need for a system to impel the parties to reach their own agreement is heightened in the Federal service where not only is there an absence of the right to strike, but also there is a virtual freeze of the status quo preventing management from resorting to self-help. Exacerbating the situation is the fact that the union is entitled to official time while negotiations drag on.

Taking into account the need to prod the parties in the Federal sector, the Director or the Federal Mediation and Conciliation Service publicly stated, "I urge you to strongly consider the use of time limits to curb the excessive length of time that bargaining now consumes." (PTO Ex, EE, p. 26) This exhortation is based on excesses far less than experienced by PTO as illustrated by the FMCS Director's citation of 16 meetings on ground rules as the ultimate "horror story." In fact, he may have been referring to the impasse between PTO and POPA on ground rules for official time for preparation of grievances. However, the impasse before the Arbitrator makes even that example appear miniscule by comparison.

In addition, the new President of the National Treasury Employees Union stated in an interview with the Government Employee Relations Report: "We're also trying to negotiate ground rules in almost all negotiations where we do a certain number of days, 60 days, 90 days, whatever it is, unassisted bargaining. At the end of that time it goes to arbitration." (PTO Ex. KK)

The Arbitrator heard a witness explain how a 30-day cap helped bring about agreement between the Bureau of Indian Affairs and the National Federation of Federal Employees with regard to the initial contract for a consolidated unit of 72 units, of which 67 already had existing contracts. (TR. III-46-47) In contrast to the relatively homogeneous unit of 1400 professionals at PTO, these negotiations involved 10,000 employees ranging from truck drivers to educators to construction workers to law enforcement personnel (TR. III-47-48). The diversity was reflected by geographical location spread from Florida to Alaska to

California, by differences in size or power of local unions, or by age-old hostilities between Indian tribes (BIA is obliged by the Indian Preference Act to attempt to hire native American Indians). (TR. III-50-51). Critical issues included RIF, merit promotion and what should be in the master agreement (TR. III-51).

John Combs, the witness who had negotiated also with IBEW, NEA, the maritime unions as well as with AFGE, explained that the NFFE negotiations were complex and not easy. (TR. III-56, 58-59). Nevertheless, the negotiations concluded on the last day of the cap due to the fact that the cap was "very much a catalyst to movement." (TR. III-53-55). Moreover, the lengthy document produced by these negotiations sparked only four grievances over the 30 months it has been in effect and both parties have been satisfied with the results. (TR. III-54, 56-57, 78).

It should come as no surprise, given the public sector experience, that the cap works. According to PTO's chief negotiator of the agreement on incentive awards the threat of third party intervention even propelled POPA to agreement in that instance. (TR. III-152). However, in the situation before the Arbitrator where POPA views basic negotiations as a detriment and not an opportunity and where it took over five months to get the impasse before a deciding official (TR. IV-100-101, 103), it is critical that the cap, like the one used by BIA and NFFE, be tied in to a fixed impasse procedure. (See also TR. II-71, 122 with regard to the prolonged impasse efforts on performance appraisal which have yet to be decided by the Panel.) In fact, what PTO is asking for is no different than what apparently is a common procedure for the Panel with regard to parties at impasse on basic negotiations. (See Attachment A) Moreover, it is common for an arbitrator or a factfinder to place a limit on his or her participation based on the same hope that time will be an artificial substitute for the stimulus of self-help which exists in the private sector.

POPA feebly tries to avoid the use of a cap by the contention that such a procedure chills collective bargaining when the reason for its use both elsewhere and in the instant case is to enhance the potential that meaningful bargaining will take place where there is a belief that it will not occur without a "pressure point." Moreover, if POPA's resources are as limited as POPA claims, a cap would place a lesser strain on those resources and also allow better planning since a known maximum period for bargaining would be established. As a bonus, a cap would be co-joined by PTO's ceding certain provisions (e.g. facilities, 40-hours a week official time during the cap for a PTO representatives, etc.) which would be otherwise unwarranted, particularly for an unknown duration of time. (TR. IV-102).

In the interest of providing some range of choice to the Arbitrator, but also in recognition that the basic agreement negotiations are likely to become a longstanding world record for longevity in the absence of "some extraordinary action", to use the words of the Arbitrator (TR. IV-105), PTO is willing to take its chances with a "mediator/arbitrator/facilitator."

The mediator/arbitrator/facilitator would act on his or her own initiative to intervene, counsel or otherwise assist the parties. He or she would have the right to refuse a request by a party to intervence or to decide an issue. He or she could not decide negotiability issues, but could try to circumvent them. PTO believes that a responsible experienced third party will try to avoid rendering decisions but will use the threat of doing so to motivate the parties to reach their own agreement. (TR. V-124) PTO believes so strongly that such help is needed to bring about sustained and conclusive negotiations that it is willing to pay the full costs for the first three months. In order to provide a further incentive we believe the parties should share equally the costs thereafter. (TR. V-84-85) We further believe that with this incentive added to the presence of the third party, who by the end of three months, will not have to be educated what the underlying factors are behind disagreements, negotiations will be unlikely to extend for an excessive period. However, the facts clearly demonstrate, and the impasse on the limited issue of ground rules strongly confirm, that the only potential for an open ended uncapped negotiation period to not go on for years is to monitor negotiations through the mechanism of a mediator/arbitrator/facilitator. Ironically, the lessons learned during such a process could produce long term beneficial effects on how the parties thereafter will attempt to solve mutual problems.

b. PTO Section 4 and POPA Section 4a

This section reveals the intent of the parties and provides a predictor of the future of negotiations between PTO and POPA more than any arguments, explanations, or evidence of the past. PTO desires to negotiate 4 days a week for six hours a day each week, obviously intending for the parties to go beyond that if they mutually desire to do so. In contrast, POPA proposes that negotiations be conducted on only core days (Tuesdays and Thursdays) between core hours (between 9:30 a.m. to 3:00 p.m.). (TR. III 139-41) As minimal as this is, it is less than it purports because of the effect of POPA's proposals in Section 2a, b and d, (which will be discussed later) and because POPA believes the core hours are the maximum limits! (TR. III 142, 144-145) The most likely result is that POPA would meet only twice a week for seldom more than two hours a day, as it did in ground rules. (TR. I-135-136) POPA explained "...we kept our schedule (emphasis supplied)" and "...we struck a balance and I find we don't believe that we could have done any better had we negotiated more hours." (TR. I-136)

POPA's proposal clearly displays its attitude toward the priority of basic agreement negotiations. We will discuss under Section 2a POPA's fallacious claim it lacks the resources to negotiate more frequently. However, even the claim of resources involves the priority applied to where and when resources will be directed.

The Panel has not been persuaded in the past by arguments such as POPA's. In Oklahoma National Guard and Local 1694, NFFE, 80 FSIP 43 (1980) (PTO Ex. CC), the Panel rejected the agency's contention that it was then in negotiations with two other unions and was handicapped by a shortage of labor relations personnel. Similarly, in Health Care Financing Admin., Baltimore and Local 1923, AFGE, 81 FSIP 57 (1981) (PTO Ex. DD) the Panel rejected the agency's claim that it was a small agency with staff shortages and selected the union's schedule of Monday through Thursday 8:00 a.m. to 4:00 p.m. over the agency's schedule of Tuesday and Thursday 8:00 p.m. to 4:30 p.m. plus Wednesday as a caucus or preparation day. The union argued that the agency had a prior history of procrastination and that negotiations were likely to be difficult. In addition, in the Philadelphia Naval Shipyard decision (supra) the Panel stated "neither inconvenience to negotiators or the impact on the union's treasury are critical factors." (slip. op. p. 9)

There should be no doubt what the Panel would do in this case. It would choose PTO's proposal to enhance the prospects for sustained and conclusive bargaining. The Arbitrator should do no less.

c. PTO Section 2b and POPA Section 2c

The wording of both parties is identical. PTO intends that no tasks of the negotiators shall have a higher priority than those related to the basic agreement negotiations. (TR. I-97-98) The only exception would be where attendance elsewhere were compelled by the FLRA or some similar compulsion existed. POPA says "that's precisely the opposite of what we intended when we wrote Section 2c." (TR. I-98, l, 14-15) Instead, POPA says "these negotiations do not have a higher priority than most of our other labor-management duties." (TR. I-105, 114)

This dichotomy identifies three significant factors other than the already obvious one that POPA has little regard to any obligation to negotiate a basic agreement. (TR. I-99-101, 104-105) The first is that where words or concepts of common meaning should not necessitate precise phraseology, such specificity unfortunately is essential in the ground rules agreement. In otherwords, PTO is willing to give union negotiators relief from work assignments and freedom from even the threat of work demands. Instead, POPA wants to stretch this provision to encompass all "other" labor-management "duties" to have priority over work assignments. POPA does not stop there, it views this provision as granting its negotiators "other" labor-management "duties" to have priority over the basic agreement negotiations as well. (TR. I-99, 103-104, 144-147).

Thus, on the basis of POPA Section 2c, POPA would delay basic agreement negotiations "for a couple of weeks" if Mr. Ronald Stern, its president but not its chief negotiator, had to prepare for performance appraisal negotiations. (TR. II-61) This reveals a second factor: that POPA views certain people as indispensable to each negotiation and that the absence of one person can mean that there should beno basic negotiations. (TR. II-62, 65-66)

The third is that there is a reason POPA does not want to negotiate a new basic agreement. POPA desires that PTO make no changes without having first exhausted impact and implementation (I and I) bargaining. POPA further desires to engage in such negotiations in isolation and without regard to any other contractual provisions or tradeoffs. The way to affect this situation is through the basic agreement - which obviously POPA wishes to leave untouched.

Added to this conflict is POPA's desire to be able to set unilaterally which I and I matter has priority. POPA does not wish to have a system to bilaterally establish such priorities. This is illustrated by PTO Exhibits Y, Z and AA, which indicate that PTO desired to deal with flexitime negotiations and an arbitration hearing while POPA insisted that PTO deal immediately with widening the scope of the grievance procedure. In stark contrast to POPA's ground rule proposals, POPA stated in Ex. AA:

> There always will be other labor relations matters to take care of. I and the rest of the POPA team are personally involved with each of the matters that you cite as a basis for delay and yet we feel that we can begin tomorrow.

POPA admits that "taking appropriate recesses to pursue our other responsibilities" is typical of POPA's methodology, (TR. I-110) even though negotiations on the limited matter of the scope of the grievance procedure took until October 1980 to conclude. (TR. III-51). In this way POPA can continually alter its priorities. At the same time, POPA may be engaging in a self-defeating action. Such broken up processes may explain the longevity of so many negotiations between the parties. Such interruptions hardly lead to continuity or momentum so important to the negotiation process. Such interruptions hardly promote the "sustained and conclusive negotiations" envisioned by the Panel. In fact, it is more probable that this procedure retards effective bargaining.

In any event, it should take no imagination to predict what would occur if the Arbitrator were to adopt POPA's position. Negotiations on the basic agreement would be deferred continually in order to address situations where POPA's members are "hurting." (TR. II-68). In contrast, PTO's concerns and needs will always be subject to POPA's unilateral determination of priorities - without regard to the fact that since October 1981 PTO has been attempting to alter the 1972 agreement and certain conditions which can be changed only through negotiations.

If POPA were really serious about its proposal it would accept a four-month cap on negotiations. The cap would set an outer limit on its use of resources as applied to basic negotiations. With the cap, PTO would grant POPA 40 hours a week official time to nine POPA negotiators regardless of whether they attended negotiations or were attending to "other" labor-management matters. In otherwords, POPA could achieve its announced goal of tending to "fires" but without delaying, deferring, or retarding the negotiation of a new basic agreement.

d. PTO and POPA Section 2a

Here, too, the parties have identical proposals but opposite intentions. PTO intends that if either team cannot have five negotiators present because they are compelled to be elsewhere, then negotiations may be postponed. As in its Section 2c POPA does not view compulsion as a factor. If POPA is pursuing grievances, unfair labor practices, etc., POPA believes it has a proper excuse for not meeting. (TR. II-82-83) Once again POPA believes it has priorities more pressing than basic negotiations. (TR. I-85-86, 104-105).

POPA's central theme is to build in sanctification of its desire to avoid basic agreement bargaining. Not only should the Arbitrator deny POPA justification for its goals, but also the Arbitrator should recognize the efforts which POPA will make and the degree to which POPA will go to avoid the conclusion of negotiations on a new basic agreement unless he imposes an automatic impasse device - whether it be a four-month cap or use of the mediator/arbitrator/facilitator.POPA's proposals, such as Section 2a, should remove any doubt that the bargaining process will be thwarted unless there is a pre-established impasse device.

e. POPA Section 2b

POPA proposes that if either team believes it needs additional preparation time, the next session will not be held. This is an example of a proposal that under normal circumstances would be an expected accommodation or courtesy extended by the parties. Under the circumstances of this case, is there any doubt what would occur if this provision were in the ground rules? If POPA is allowed to operate within a system which allows basic agreement negotiations to be of the lowest priority it is obvious POPA will devote its time to those matters it deems more important and, in fact, will not have spent time to prepare for basic negotiations.

Under these circumstances, POPA can truthfully say it is not prepared. Why should ground rules allow POPA to do this? POPA has operated this way with regard to performance appraisal negotiations and these sessions are nearing the three year mark. (TR. I-50, 78). In short, the proposal grants a justification for delay. It does not encourage sustained and conclusive bargaining.

Although PTO opposes this provision, we believe that a 4-month cap or the use of a mediator/arbitrator/facilitator could inhibit POPA from making use of the postponement provision that it otherwise would reasonably be expected to make.

f. PTO Section 2d and POPA Section 2e

Consistent with its desire to defer and to continue to defer basic negotiations, POPA proposes that negotiations requested prior to September 23, 1982 - the date the parties first met on ground rules - will have precedence over basic negotiations. PTO is willing to use the same date but to apply it to only those negotiations commenced - not requested - prior to that date. In addition, PTO is willing to negotiate concurrently on those matters. It is not willing to allow other negotiations to have precedence. In fact, if there is a valid basis for choosing a date for such purposes it would be June 10, 1981. That date is chosen because it is the date that PTO tried to enforce its rights with regard to official time used by POPA and which PTO later agreed to deal within the basic agreement negotiations, which PTO requested on October 21, 1981. By using a date subsequent to June 10, 1981, POPA is able to obtain priority or equal standing for matters on which it requested bargaining after it had promised PTO it would wrap up negotiations on cutting off preparation time for grievances.

Even if the June 10, 1981 date were not the cut off date, it is difficult to accept that POPA has a justifiable basis to claim priority on matters which it has not deemed urgent enough to press to impasse or to agree to press to impasse. Illustrative of the illusory nature of most of POPA's proposals - which are intended as obstacles to getting to the basic agreement - is the fact that POPA would have "merit assignment" take precedence over basic negotiations (TR. II-83-85) because POPA requested negotiations prior to November 16, 1979 (POPA Ex. W, TR. II-110). However, POPA has yet to ever submit to PTO its bargaining proposals. (TR. II-121). Nevertheless, POPA claims its demands have greater magnitude and importance than the basic agreement.

Another example of the inequitable result which would occur under POPA's proposal would be that priority would be given to "shoe card" negotiations requested on August 11, 1982 (TR. II-109, 118-119). Thus, priority would be given even though a request was made after PTO requested basic negotiations. Similarly, priority would be given to the shoe card situation even though it has remained dormant for well over a year. (TR. II-119).

POPA's proposal further confirms what has been repeated throughout this brief. First, despite POPA's contentions to the contrary, the proposal by definition indicated that some negotiations between the parties have existed for protracted periods of time. Second, basic agreement negotiations are a "luxury" to POPA when it has "fires" to tend to which are "much more important" than the basic agreement. (TR. II-116-117). Third, POPA wishes to deal with those aspects it deems significant in a way that insulates it from having to take into account other matters or to make tradeoffs. (TR. II-68-70).

Another dimension of this proposal, which is integral to the probability of delay, is POPA's premise that it does not have the resources to deal with more than one negotiation at a time. This is why POPA would view its proposal to mean that not only would certain negotiations take precedence over basic negotiations, but also that preparation for such negotiations also would take precedence over basic negotiations. (TR. II-61).

The fallacy of this claim is revealed by PTO Exhibit W which shows official time used by POPA during the first 10 months of Fiscal Year 1983 and does not include such things as union-sponsored training. Out of a unit of about 1400 employees, POPA has 23 employees who each had used more than 30 hours of time. All but one had experience in grievance presentation or preparation. All had experience in engaging in negotiations or consultation. Of this total, 13 had used more than 200 hours of official time. It is clear that POPA has a pool of high graded employees, many of whom are attorneys, to perform tasks for POPA and many already have considerable experience in performing such tasks for POPA.

The transparency of POPA's contentions is further revealed by POPA's insistence that it have nine members at the bargaining table to negotiate the basic agreement - a matter which it claims is of infinitely lesser importance to it. Obviously, POPA can reduce its bargaining team on the basic agreement and have ample resources to deal with its more pressing priorities. However, even if POPA were to encumber the services of nine members by placing them at the bargaining table for basic negotiations, POPA's resources still available to conduct other negotiations and to pursue grievances, unfair labor practices, etc. is so vast that most other unions representing larger units would be envious.

The large number of representatives available to POPA pierces POPA's veil of tears and bares the speciousness of POPA's claims that it cannot devote its "limited" resources to more pressing and urgent matters if priority was given to basic negotiations. In addition, since the facts leave no doubt that the availability of resources do not justify POPA's demands with regard to time and priorities, then POPA's blatantly open purpose - to make basic agreement negotiations secondary to everything else - should be specifically addressed by the arbitrator. In other words, the issue is not of preparation time, sequence, or other procedural niceties. If the basic negotiations have the highest priority, then the Arbitrator should remove whatever devices POPA would use to alter that priority, however innocent any of those devices might be when viewed in isolation.

g. PTO Section 2e and POPA Section 2f

PTO proposes that if midterm changes occur during basic negotiations they should be combined with the basic agreement except for changes mandated by statute or government-wide regulation, or overriding exigency. If a cap on negotiations were imposed, PTO would agree to refrain from making any changes during the cap period with the exception of parking or matters involving an overriding exigency. (TR. II-128). Neither arrangement should be construed to adversely affect or modify notification to POPA.

This last proposal is a concession by PTO only to make a cap more acceptable and would be impossible to do without a cap. In the context of what could be expected if there is no cap, PTO actions would be frozen for years.

POPA's proposal goes beyond this. POPA proposes that even if there is no cap, no mid-term changes could be made until a new basic agreement is signed. POPA does not confine its proposal to these matters which would require mid-term bargaining. A bargaining obligation extends to the union only when a change in terms and conditions of employment is substantial, when the union's proposal is related to that change, and when the union's proposal is worded in a manner which is within the mandatory scope of bargaining. POPA's proposals would not require these conditions to be met. Apparently, POPA, through its proposal, expects negotiation rights to changes not triggering bargaining rights of POPA.

POPA does not stop there. POPA believes that automation is of priority status to PTO. Therefore, it desires to predetermine that no overriding exigency can exist with regard to automation, so that PTO will be precluded from moving ahead with automation until an agreement is reached by the parties. POPA's proposal is an indicator of how long POPA believes negotiations will go on without a cap. POPA's proposal addresses I and I bargaining on automation when it does not expect the implementation to occur until two or three years from now, after reviewing the results of a "test bed operation." (TR. III-8, 1.18-22). If negotiations were to conclude within a "reasonably short period of time" POPA will never have to worry about this "dilemma".

The effect POPA intends is quite pronounced when viewed in conjunction with its other proposals. POPA proposes that all matters of concern to it shall have priority over the basic agreement. It specifies its priority proposals be negotiated separately. In contrast, the only way PTO can make changes is to reach total agreement - an agreement which POPA openly desires to defer. In fact, despite constant statements by POPA throughout the proceedings before the Arbitrator that agreements be put into effect once they are reached, POPA would delay implementation of I and I agreements until the whole contract is negotiated. (TR. II-148-149, III-12, 23-24). Thus, if negotiations took four years, PTO would be blocked from making changes for four years. POPA would allow for negotiations on matters involving an overriding exigency but only at the expense of further delaying the basic agreement. POPA explains that concurrent negotiations are very unlikely "because the chief negotiator in these negotiations is a very important negotiator in the other negotiations also." (TR. II-63-66).

These effects are so outrageous that it should not be necessary for PTO to spell out why it is opposed to POPA's proposal. In addition, it should be obvious that the concept of "overriding exigency" is contingent upon timing and that a change which is not overriding at one time can be at another time-provided that the timing has not been a "bootstrap" product of the agency. Therefore, it would be inadvisable to determine in advance what will or will not be an overriding exigency at a later time. PTO did offer POPA a role in the automation planning process, but it should be no surprise to the Arbitrator that the parties were unable to reach agreement on how this would be accomplished. (TR. III-15-16).

h. PTO Section 9

PTO proposes here what most unions would view as a major concession - to remove any obstacles to the impasse procedure caused by a negotiability dispute. PTO proposes the procedure that the Panel prefers. Upon impasse the third party should attempt to resolve the issue as if there were no negotiability issue. In this way if the union does not prevail on its proposal, negotiability is moot. If the union were to prevail but with different wording which circumvents the negotiability issue, the issue once more is moot. Without such a procedure impasse would be delayed at least 18 months if the FLRA's present timetable continues to apply. PTO's proposal affords POPA an opportunity and a timetable to negotiate a proposal to substitute for any proposal found non-negotiable by the FLRA.

Just as POPA previously claimed that the Arbitrator should defer his intervention until the FLRA acted upon its negotiability appeal in this ground rules impasse, POPA's position is that it would rather wait for a decision by the FLRA before going to impasse. (TR. I-152-174).

The message is quite clear as it has been in each of the proceeding proposals: POPA does not desire to have a successor agreement to its 1972 basic agreement and it wishes to keep that agreement in place as long as it can.

i. PTO Section 6f

The purpose of PTO's proposal is to establish the concept of packaging and prioritizing. It is aimed at avoiding disagreement on words before the parties get to dealing with whether or not they agree on the idea. (TR. IV-75-76). POPA prefers to go sentence by sentence and to dwell on each word having an independent meaning. POPA admits that they go line by line, focus on small segments, do not seek general agreement on intent, and do not look at the potential for tradeoffs or interrelationships. (TR. IV-77-78, 92). Some may disagree on 1) whether if people can agree on a concept then they can arrive at wording or even subprinciples and 2) whether packaging or prioritizing can bring about agreement that may not otherwise occur. However, in this case, the approach used by POPA has been counterproductive in these ground rules. (TR. IV-89). The longstanding nature of disagreements on many negotiations between PTO and POPA speaks for itself. Reflection on the arguments made by POPA throughout the proceeding before the Arbitrator should verify that among the many impediments to agreement has been the failure to first identify areas of common agreement and areas of potential tradeoffs.

Obviously, use of PTO's approach does not guarantee success. At the same time, if POPA finds that not only it works, but also that it can be to its advantage, then some beneficial result may occur which will last beyond these negotiations.

In any event, we urge the Arbitrator to not condemn the parties to continuing to repeat the mistakes of the past.

j. PTO Section 6a and d

The purpose of these two proposals is so that PTO will know who is speaking for POPA, since POPA speaks with so many voices (TR. IV-47-48) and to ensure that productive sessions will occur even if the chief negotiator cannot attend. (TR. IV-72). Hopefully, these provisions should be uncontroversial in light of POPA's embracement of 6d with the deletion of the words "by him" in the first line. (TR. IV-75). However, PTO does have concern when Mr. Stern says on behalf of POPA that negotiations cannot take place without his presence. (TR. II-63-66). PTO has concern when Mr. Oresky, on behalf of POPA, expresses distress "that whatever the chief negotiator says is a commitment for the team (emphasis supplied)." (TR. IV-70). The proceedings before the Arbitrator should certainly demonstrate the need to identify POPA's spokesman and to create a mechanism for an orderly procedure.

In short, what PTO is asking for should occur without having to provide for it. In this case, the need for it is self-evident and if a cap were imposed to facilitate negotiations POPA may even need these provisions in order to maintain the internal discipline it will need to best pursue negotiation proposals.

k. PTO Section 6c

PTO proposes that the ground rules provide a mechanism for a person to attend negotiations for the limited purpose of providing technical information and answering questions. The reason for the proposal is two fold. One is so that the parties do not sit for days arguing about some aspect of physical facilities or the administration of certain personnel rules when someone can come in and resolve the factual controversies. In otherwords, the disagreement should focus on what the parties want to put in the contract because of the facts. The second purpose is prevent potential abuse by setting out ahead of time the limitations on the use of such people. (TR. IV-49-51). The provision is not intended as a device by which an opposite party can compel attendance of a person for discovery purposes. (TR. IV-58).

Perhaps POPA is right that under normal circumstances this could be arranged on an ad hoc basis. (TR. IV-52). However, the Arbitrator should be able to recognize that it would not be unlikely for the parties to spend an entire day discussing such an ad hoc arrangement when the time comes. PTO fears that without such a provision it may not be able to cut short endless discussion by saying "we'll bring X in tomorrow and he can answer your questions on why it is done the way it is done now."

l. PTO Section 6e

This provision is a perfunctory one to provide for caucuses but achieves a second purpose to give breathing room for concentrated intensive bargaining. It openly allows for a caucus to be a short rest break. This is so that a party needing rest does not ask to recess for the rest of the day. (TR. IV-60-61). It is also intended to avoid the situation where a party makes an excuse for a caucus when its real purpose is to take a short break. (TR. IV-62). When the real purpose is recognized by the opposite party, trust is damaged.

POPA opposes this provision despite its insistence that parties can unilaterally postpone negotiations for a number of different reasons. Perhaps POPA's concern is that only a short break is allowed rather than a postponement. In any event, the basis for POPA's opposition is unclear. During the hearing POPA stated that "both sides should have to agree to it." (TR. IV-63). Minutes later, POPA said "this should be done by unilateral action ... and not made dependent upon mutual agreement at the time." (TR. IV-65).

m. PTO Section 8

This provision has two purposes. One is to speed things by indicating thast negotiability appeals should be sent to the Director of Personnel and not to the Secretary of the Department. The second is to clarify that negotiators sign, the principal executes and then the Department reviews and approves. The Department, not PTO has the negotiability review function. (TR. IV-131). As discussed in length by the union, POPA believes that in the space negotiations the Commissioner was the approving authority when, in fact, he was the executing authority. Since there is an unfair labor practice complaint based on this mistake, it would serve the parties to set forth the correct procedure and to not have what should be a substantive dispute be decided on a procedural basis.

n. PTO and POPA Section 10

The parties disagree on even the simple concept of what happens upon signing an agreement. PTO sets out a time limit for signing. POPA does not. The 30-day period in 5 U.S.C. 7114(c) does not apply to the Commissioner since approval authority is at the Department level and not at PTO.

In addition, PTO sets forth what happens, including a time schedule, if the agreement is disapproved. POPA does not. What POPA does provide for is to preclude the Commissioner of PTO from declining to sign an agreement on the basis of conflict with Department regulations. The Commissioner has no authority, on behalf of the Department to waive the Department regulations.

The critical issue once again is time. POPA once again does not want to be constrained by any time periods if it does not get what it wants at the bargaining table. Once again POPA says it does not want to predetermine in advance such things. (TR. IV-152). This is in stark contrast to POPA's Section 2f which wants to predetermine whether automation involves an overriding exigency. It is in even more glaring contrast with POPA's proposed Section 9. In that proposal, POPA proposes that if its membership rejects the agreement, then negotiations would be resumed "immediately." In otherwords, once POPA's leadership decides it wants an agreement, then a totally different approach is appropriate. In addition, without a time limit for POPA to sign the agreement, there is no time within which POPA has to seek ratification. Both POPA and PTO proposals do not specify a time within which a ratification vote must be taken.

o. POPA Section 4b

POPA proposes that negotiations begin the first core day after the ground rules agreement is signed. Since the agreement will be an arbitration decision, the same timing would follow. However, POPA appears to be backing off of this and the Arbitrator appears to be in agreement. (TR. III-161-162).

Obviously, if a mediator/arbitrator/facilitator were to be used, negotiations could not begin until someone was selected by the parties or someone was imposed on the parties. However, it is critical that negotiations begin as soon as possible. PTO openly fears that if any latitude is given, the greatest possible delay will occur. It has already been documented that POPA insisted that ground rules negotiations could not begin until both parties exchanged proposals. The usual procedure is to first establish ground rules, if only to grant to the union official time to prepare its proposals. In this case, POPA has yet to ever submit to PTO its proposals, despite continual promises that POPA was about to submit them. With this history and with PTO having requested on October 21, 1981 negotiations and with PTO having requested in January, 1983 Panel action, it should be obvious that PTO desires to avoid anything which could become a further basis to postpone further the commencement of negotiations. We believe that the very least the Arbitrator can do is to not allow still further delay to occur.

2. Subsidization of POPA

a. PTO and POPA Section 3

PTO is willing to grant a reasonable amount of official time to POPA bargaining team members to perform all necessary and relevant activities related to basic negotiations. The only words of limitation are that the amount be "reasonable" and that such time be granted to POPA team when "otherwise in a duty status." Therefore, preparation time would be granted without an hourly or other restriction. This is hardly a hard nosed bargaining position. If the Arbitrator were to grant a cap PTO would be willing to give each of the 9 POPA team members 40 hours of official time during the term of the cap without regard to the relevance of their activities to basic negotiations.

POPA wants more than this. POPA wants to be paid overtime or compensatory time, at the election of the employee, for any negotiation time spent outside of regular working hours. Thus, if negotiations were to go one night to 6:00 p.m., the POPA team would receive overtime. If a POPA team member decided to look up some cases or draft a proposal at home at night or during the weekend, he would receive overtime.

POPA has one of two goals in asserting such a demand. Since POPA went to extremes to dredge up negotiability issues, POPA may have raised this issue merely to tie up the ground rules in a negotiability dispute, as the proposal is blatantly contrary to law. (See PTO Ex. MM). In the alternative, POPA desires PTO to subsidize it. POPA is saying it is not worthwhile to POPA to engage in basic negotiations or related activities unless they get paid. POPA wants PTO to do the paying.

POPA has a membership of high graded employees with a dues structure less than the clerical employees. (TR. IV-28). POPA has voluntarily decided to not affiliate with a national union which could provide negotiation assistance. Therefore, POPA by not paying per capita dues has chosen to use its own resources. It is disingenuous for POPA to plead poverty and then claim PTO should pay for what POPA is unwilling to pay for itself. It is further reflective of POPA's attitude towards basic negotiations if the only way POPA will spend time that may be essential to productive bargaining is if PTO will pay the employees overtime.

POPA rationalises its position with the claim that all of its negotiators "should be paid overtime because we are acting in the interest of the government and this is the work associated with the Agency and furthers the goals of the agency." The Supreme Court disagrees. In *Bureau of Alcohol, Tobacco and Firearms* v. *FLRA*, ________ U.S. ________ (1983) the Court said:[6]

> neither Congress' declaration that collective bargaining is in the public interest nor its use of the term of art "official time" warrants the conclusion that employee negotiators are on "official business of the government."
>
> ....
>
> There is no evidence, however, that the [Civil Service Reform] Act departed from the basic assumption underlying collective bargaining in

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[6] PTO Ex. JJ, p. 6-7.

> both the public and the private sector that the parties "proceed from contrary and to an extent antagonistic viewpoints and concepts of self-interest."

Not only does POPA fail to produce any evidence to show that relief from paying its own way is consistent with prevailing practice, but it fails also to show where it has been paid any place else. POPA also fails to provide any facts that could justify it being the first Federal sector union to receive such a bonus for participating in the collective bargaining which is required by statute.

b. POPA Section 4c

POPA proposes that after the parties have met for 300 hours, they could meet on Saturdays. Consistent with its proposal in Section 3, POPA team members would be paid overtime or compensatory time. In short, POPA team members would receive additional pay for engaging in negotiations if bargaining proceeded long enough.

This is a variation of the same ourageous demand POPA made in Section 3. POPA is saying very clearly that it should not and will not accelerate negotiations or meet more frequently, unless its team members will derive a direct pecuniary benefit.

Once again there is no reason for PTO to reward POPA team members for doing what they are expected to do if they decide they want to volunteer their services to POPA.

c. POPA Section 6

POPA proposes that PTO provide free use of word processing equipment, typing sentences, and computer legal research faclities as well as the free use of personnel to operate these devices.

Once again if POPA has chosen not to raise through dues the funds sufficient to support its bargaining efforts, then PTO should not be expected to supplement POPA's dues. In short, POPA has made a choice. POPA should have to live with it.

POPA's proposal specifies that it is "[i]n order to effectuate the purposes of the statute." However, the Supreme Court, in BATF v. FLRA, supra, states "Congress contemplated that unions would ordinarily pay their own expenses"[7] POPA claims it needs such services to be in an equal footing with management. (Tr.IV.27-27) The Supreme Court says equality is not required.[8] (Tr.IV-27). Once again, POPA has failed to point out any special circumstances why PTO should pay for what POPA members do not want to pay for, after having had full opportunity to set out its evidence. (Tr. VI-29).

POPA's proposal specifies its demand is also "to expedite these negotiations". If a cap were placed on negotiations, thereby making it more possible for PTO to manage the situation, PTO would be willing to provide, at the same rental cost it pays, access to word processing equipment and commercial data bases, but will not provide operator services. (TR. IV-25). POPA would have to provide four-hour notice, since it will take special scheduling to make machines available. (TR. IV-30). Although PTO may have to pay overtime for its scheduled work to be done, due to the use by POPA, PTO is willing to bear that cost as the compromise to conclude the negotiations within a fixed and reasonable time. However, it would be too burdensome to provide such access for a prolonged period of time. PTO shuld bear this burden only if the negotiation process will be truly expedited.

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[7] Id. at p. 6.

[8] Id. at p. 7.

d. PTO and POPA Section 1

The basic difference between the parties is that PTO is unwilling to pay official time for more than six POPA members at the bargaining table or for more than six POPA members at any one time. POPA claims that because PTO desires a team which includes 3 alternates, and because 5 U.S.C. 7131(a) does not use the term "alternates", POPA is entitled to have nine members at the table. POPA claims this entitlement as a matter of right. (TR. I-48, 29-31). Because this subject has been briefed to the Arbitrator and a series of case decisionshas been submitted to him, we will discuss only whether the Arbitrator should grant POPA its proposal on the basis of its merits.

The first problem is whether POPA intends there to be alternates instead of the team limit being nine stated individuals. Apparently, POPA intends for there to be alternates in addition to the nine negotiators, as it brought Richard Fisher to substitute on January 11, 1984 for the absent Edward Wojciechowicz. POPA eventually acceded to PTO's objections to Mr. Fisher's presence on official time, but it is unclear whether POPA believes its proposal allows it to have alternates come to the bargaining table.

The second issue is why POPA needs to have nine members at the bargaining table. First POPA claims it needs to have a diversity of members to be representative of the unit. (TR. I-24). Under any circumstances, nine is a large number for a unit of its size housed in a common location. (TR. I-25). If POPA's basis is diversity, scrutiny of the composition of POPA's team reveals POPA's team was not selected for such a reason. The mechanical examining area consists of five groups, but POPA's three mechanical representatives were from the same group at the time of their selection. There are five electrical groups, and two of POPA's three representatives were from the same group. There are five chemical groups but POPA's two chemical representatives were from the same group. POPA claims it has vast diversity within its unit and that it represents 25 different jobs. (TR. III-92-93). However, all the rest of the unit is represented by one person, who is an examiner as contrasted to other non-examiner professional categories. (TR. V-175-176).

The third problem is the effect on negotiations by having nine people at the bargaining table representing POPA.

A large number of people at the bargaining table is not conducive to successful negotiations. (TR. I-24). POPA opposes more people at the table in the form of observers. (TR. IV-36). In viewing specialists, POPA looks at the team with the greater number of people at the table as possessing an advantage. (TR. IV-55).

Because POPA claims its "other" responsibilities have a higher priority than basic negotiations and because all its team members are on other bargaining teams (TR. I-35, 37), it will be difficult for POPA, by its own admission, to have nine people at the bargaining table. (TR. I-24). Moreover, it is inconsistent with POPA's claims of priority to place so many of its key members on the basic agreement negotiations. (TR. I-24, 101-102). POPA's claim lacks credibility also because it includes grievances among its other responsibilities, but nevertheless it has a prior record of members who handle such matters while seldom serving on negotiation teams. (TR. I-83-84, 85-86, PTO Ex. W).

Once again POPA uses the performance appraisal negotiations as an example of the usefulness of many team members (TR. I-34) when, in fact, such negotiations continue to drone on since April 28, 1981. (TR. I-50).

In short, POPA's proposal will make negotiations even more unmanageable and more difficult to hold. If all POPA wants is to expand the number of people to engage in preparation activities, PTO is willing to give all nine POPA team members 40 hours a week official time without regard to the relationship of time spent to negotiation activities provided that there is a four-month cap on negotiations. PTO's proposal is made only to ensure that the cap period will provide the capability of producing full agreement by the end of that time and to ensure that use of preparation time or satellite negotiations will be productively utilized.

The Panel decision in Veterans Administration Regional Office, Houston, Texas and Local 1454, NFFE, 81 FSIP 12 (1981) (attachment B) is instructive. In that case, the union desired six people at the table on official time because the agency wanted three regular members plus three alternates. The Panel rejected the union proposal and accepted the agency's proposal of three-member teams plus alternates. Taking into account the counterproductiveness of POPA's proposal and the exhorbitant cost factor of nine high graded POPA members with no corresponding benefit, the Arbitrator shoudl follow the example of the Panel.

e. PTO and POPA Section 5

PTO provides for making available a meeting and a caucus room. POPA's proposal differs in that these rooms would be "dedicated solely for the negotiation sessions." POPA intends that no other people could use the room during that time regardless of whether negotiations were not in progress at the time. (TR. III-170-171). If there were continual use, such as proposed by PTO in its Section 4, this proposal would make sense. If there were the infrequent use of the rooms as intended by POPA's Section 4, there would be a tremendous waste. POPA explains that it could leave its materials in the rooms if they were set aside for such exclusive use (TR. III-172, 174), but this infers POPA would look at their materials only when in those rooms and would not take materials back to their own rooms or home to prepare for later sessions.

POPA's proposal does not make sense when space is at a premium (TR. III-184-185) and when POPA has been crying about the lack of space for examiners, as illustrated by the "space negotiations." (TR. III-176). If POPA wants to have an office it should negotiate for it or pay for it itself instead of PTO paying for it. (TR. III-176). However, as is typical of POPA's attitude, POPA claims it is not worth making tradeoffs to obtain an office. (TR. III-182-183).

Apparently, POPA does not believe in making tradeoffs for anything. In any event, POPA has provided no support for denying others use of unused rooms for the sole purpose of relieving POPA members from carrying negotiation materials with them.

3. Miscellaneous

a. PTO Section 6b and POPA Section 7

PTO would allow observers while POPA would not allow them at all. PTO's purpose is for training and enhancing later administration of the contract. (TR. IV-39-40). POPA views PTO's proposal as ruse to avoid the statutory obligation that both teams be equally represented. (TR. IV-35, 37). PTO is willing to add additional restrictions on use of observers to allay POPA fears, but the benefit derived from observers can be helpful to constructive relationships. In fact, despite POPA's scoffing at such benefits, POPA claimed in a different context that someone at the bargaining table for only a short period of time could pick up the real flavor of what is going on. (TR. IV-56).

POPA claims also that allowing observers would open the door to POPA members attending and who would later give the bargaining team "a rough time at the next executive board meeting." (TR. IV-39). Although this was not PTO's intent, in the case of POPA the result might be salutory. In any event, this position is inconsistent with POPA's repeated assertions of being "a very democratic organization." (TR. IV-39).

This provision obviously is not critical to the resolution of the impasse. However, it is reflective of the degree of difficulty the parties have in reaching agreement on almost anything - unless in this case POPA has gone to extremes in trying to find items to magnify the impasse. In either event, it illustrates the probability of what is likely to occur in basic agreement negotiations if the Arbitrator does not establish a mechanism or procedure to reduce this likelihood.

b. POPA Section 8

POPA desires that the Commissioner (and the President of POPA, who is already on POPA's bargaining team) to personally attend all negotiation sessions. Although, PTO did not assert the non-negotiability of this proposal, POPA, wishing to create additional controversy, filed a negotiability dispute with the FLRA as if PTO raised such an objection. Obviously, PTO refrained from such an assertion in order to avoid the potential that resolution of the ground rules could be further delayed. (This emphasizes the importance of PTO's Section 9 relative to avoiding negotiability issues.)

POPA has failed to provide justification for such an extraordinary procedure. POPA claims that it has received more favorable treatment when it has met with him face-to-face (TR. V-97, 111) and has inferred that PTO negotiators are reporting less than full information to him, thereby diverting him from a more favorable response to POPA (TR. V. 94-95).

POPA's statements defy belief. When arguing in a different context, POPA said that PTO's negotiators report back to him "personally" and do so on a regular basis. (TR. IV-157). POPA stated the Commissioner already "most certainly is monitoring these [negotiations] very closely and is aware of where they're going." (TR. IV-158). POPA tried to claim that BIA's success with a cap was possible because of a good relationship between the parties. And yet one of the people advising BIA in that situation is one of the people now accused of contaminating the mind set of the Commissioner. (TR. III-79). Most important of all is the accusation of POPA (obviously when arguing for something else) that PTO is J.P. Stevens - like and the Commissioner comes from NASA which was portrayed as being villainous in its relations with the union. (TR. II-104-105).

If POPA's latter statements are to be believed it would be disadvantageous to POPA to have the Commissioner present at mediation. In any event, for such attendance to be compelled extraordinary circumstances should exist. They have not been shown to exist. Therefore, there was no need at the hearing to contest the fabrications presented by POPA.

c. PTO Section 9 and POPA Section 10

The parties differ even on what has to occur after the negotiators have reached agreement. PTO's proposal indicates what should be perfunctory. It states the Commissioner executes the agreement and then the Director of Personnel for the Department of Commerce approves the agreement. The agreement is not binding until this occurs. There is no intent to waive the requirement under 5 U.S.C. 7114(c)(3) that the Department level must act within 30 days of execution and failure to do so becomes approval.

POPA's proposal eliminates the approval by the Department. (TR. V-37). By substituting the Commissioner for the Department, it requires the agreement to become binding once he has signed it and POPA's president has signed it. POPA, therefore, proposes that the Commissioner cannot disapprove an agreement on the basis of conflict with Departmental regulations. Despite professed concerns with equity and timeliness, POPA's proposal contains no time limit on how long the POPA president may defer signing an agreement ratified by his membership.

POPA's explanation to the Arbitrator adds a requirement that is critical to the time related arguments already made. POPA views that an agreement cannot be signed off until negotiability decisions are rendered by the FLRA. (TR. II-134, 137).

PTO has presented evidence that all agreements are submitted to the Department after the Commissioner has signed. (TR. V-53, 55, 77). The only evidence POPA submitted to the contrary was its Exhibit GG, an unfair labor practice complaint. PTO take strenuous and vehement objection to this exhibit because the complaint makes no allegations that the Commissioner was delegated the authority to approve agreements and makes no allegations that it has been the past practice for him to do so. There is no indication of the FLRA having made any investigation. There was no introduction of case law by POPA, nor citation of it by the FLRA, which characterizes execution as necessarily synonomous with approval. We further object to the relevance of the exhibit because if POPA had evidence of such practice it could have presented that evidence for evaluation of it by the Arbitrator. PTO further excepts to being put into the situation where it has to fight such a spurious allegation in two forums and indeed, to set out its case before the FLRA gets to it. If POPA had facts to present to the Arbitrator that the Department had delegated to the Commissioner approval authority, they had the right to present them. However, if they had done so, PTO would have had the opportunity to rebut those facts without relevance to the ULP proceeding.

In view of this conflict, PTO has chosen to not submit additional evidence. However, we do believe that POPA has shown the need for the ground rules to specify the obvious - that the Department has the approval power. Otherwise, this will be likely to be a subject of controversy if the day ever comes when the parties reach agreement. POPA has shown also the need for the ground rules throughout to spell out the obvious, since to not do so will be to invite needless and protracted debate.

GENERAL

Among the factors that should be considered in evaluating the facts and the arguments of the parties is that, in the words of the Arbitrator, "there are a lot of things here which don't fit into the traditional format..." (TR. III-138). Another significant factor is the bargaining history of these negotiations. POPA, with very minor exceptions, has stood firm by its January 20, 1983 position (TR. II-31) which is the same as September 23, 1982. In contrast, PTO has moved from the first day to and through the hearing, offering alternate proposals, suggesting tradeoffs, and revising proposals to make the total package more acceptable. If the Arbitrator views PTO's approach as not gaining any deference to it position, the lesson will be learned by POPA that its approach will not create any disadvantage to it in negotiations for a new basic agreement. Similarly, POPA treats most of the issues and sub-issues in isolation and as having no interrelationship. This approach is inconsistent not only with the facts but also with the mode of impasse resolution ordered by the Panel - which was not set out as an issue-by-issue mode. For example, the provision for impasse resolution is not a discrete item from the provision for a time cap. The critical issue is producing a conclusion within a reasonable period of time, when POPA has openly declared its desire not to do so as long as it has other labor-management duties to attend to and when POPA has proposed a variety of different provisions which would enable it to place basic negotiations on the bottom of a continually updated list of priorities.

The lack of credibility and the manner of presentation or conduct by POPA should be taken into account by the Arbitrator.

Take for example, PTO's statement early in the hearing that it believes so strongly that basic negotiations will take so long without a cap that it could not take the chance on proceeding without ground rules - even though this would be a way to end the impasse. (TR. I-86-87). Nevertheless, POPA made a long-awaited offer, after caucusing, to resolve the impasse when it proposed on January 11, 1984 that the parties begin negotiations without ground rules.

Such chutzpah is not isolated. The parties exchanged lists of witnesses. POPA was informed of PTO's proposed use of Johns Combs as a witness and the purpose of his testimony. POPA utilized the opportunity provided to obtain prior to Mr. Combs appearance information related to his testimony. However, POPA then without use of documents or witnesses attempted to offer hearsay evidence pertaining to Mr. Combs' testimony (e.g. TR. III-85-87). In contrast, on the final day of the hearing, POPA brought forth as a witness, Larry Williams, without prior notice as to his identity or purpose or opportunity to PTO to obtain information prior to his testimony. If this were not blatant enough, POPA presented him as a member of the AFSCME local representing the clerical employees. (TR. V-4). It took cross-examination to reveal that Mr. Williams was not such a member but is a member of POPA and is a patent examiner whose grievance over denial of his promotion is being processed by POPA. (TR. V-13). It is not necessary to point out the various contradictions and evasions by Mr. Williams when the more important matter is that POPA chose not to use AFSCME's chief spokesperson, particularly one who was present when the ground rules in question were negotiated (TR. V-11, 18-20) and one who could respond to questions as to AFSCME's strategies, motivations, and also the reasons for the final outcome of the negotiations. As significant as is the total lack of credibility of this witness, equally, if not more, significant is what this says about POPA's case if this is what POPA needs to do to present "evidence". The offensiveness of this is compounded by the concealment of Mr. Williams in contrast to Mr. Combs.

Similarly, Mr. Oresky, on behalf of POPA, claimed that POPA was heavily bogged down with numerous removal cases (TR. I-116) and with 100 grievances a year (TR. III-86-87). In response to PTO's demand for verification, the Arbitrator asked Mr. Oresky to prepare "with some degree of expedition" an exhibit for review and analysis by PTO. (TR. III-106). Nevertheless, POPA did not present its exhibits EE and FF until two months later on January 11, 1984, once again providing PTO with little opportunity to present evidence to the contrary. In any event, POPA Exhibit FF hardly presents a list approaching 100 grievances, let alone numerous arbitration hearings. Of the employees listed in POPA Exhibit EE, only two were not probationary employees and the two who were not both resigned - they were not removed. In fact, of the two non-probationary employees, the only action pertaining to one of them was a denial of a within-grade raise. Formal contact with POPA on these matters was limited, and most of that which did occur was with three representatives who are not on POPA's bargaining team.

Advocates should be given some liberty in presenting in the best light their sides of the story. But audacicuoness is another matter! POPA repeatedly asked the Arbitrator to rely upon the "expedited" procedures of the FLRA thereby, according to POPA, making any time delay in awaiting an FLRA decision negligible! (TR. V-46, 61-62). POPA expects the Arbitrator to believe Robert Howlett, the former chairman of the Panel, to say, contrary to his public statements and his actions, that he is inhibited by the potential that the FLRA would find a proposal to be non-negotiable. (TR. V-59-60, 75). POPA expects the Arbitrator to believe that its unit is more heterogenous than the BIA consolidated unit used as an example of where a cap on negotiation helped the parties reach their own agreement (TR. III-93-93) and that the PTO/POPA negotiations would be addressing far more complex time - consuming issues than those addressed in the BIA master agreement. (TR. III-93).

We ask the Arbitrator to consider if POPA would make claims such as these so visibly fallacious, then would POPA not treat the truth similary in matters not so subject to easy verification.

CONCLUSION

The mere volume of words needed to address a ground rules dispute over the duration and frequency of negotiations is testimony itself to the need for the Arbitrator to set forth a gound rules instrument designed to ensure that productive collective bargaining will occur. In the context of 1) the parties' history of extended bargaining, 2) PTO's October 21, 1981 effort to open negotiations on a successor agreement to the 1972 basic agreement, 3) the fact that ground rules negotiations began on September 23, 1982, 4) the fact that PTO requested on January 21, 1983, Panel assistance, and 5) the proceedings before the Arbitrator began over seven months ago on August 1, 1983, there can be no doubt that without a time-cap on negotiations or the use of a mediator/arbitrator/facilitator or some similar device, bargaining will go on endlessly. At the very least, the Panel's goal of encouraging "productive negotiations over a reasonably short period of time" and of enhancing "the prospects for sustained and conclusive bargaining" will not be realized. Moreover, when POPA has openly said that its lowest priority is the basic agreement and that the time it takes to reach an agreement is not a consideration, it is imperative that the Arbitrator take steps to avoid the basic agreement negotiations becoming even proportionately longer than the horror story which portrays the tale of the ground rules negotiations now at issue.

Above all, the Arbitrator, although selected by the parties, has acted by direction of the Panel and in lieu of the Panel (without the request of the parties to do so). We believe his decision should be considered as having been made as an extension of the Panel.

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MR. SEIDENBERG: I just noticed that I was appointed on July 13, 1983, so I'm known as a property owner for two years now. But I'm not purporting to be a ground rules dispute. I submit that is not a normal situation by any standard of extended discussions.

I doubt whether you'll find in the annals of the Federal Service Impasse Panel or any other appropriate Federal agency to find that a neutral sitting on May 10th on a problem for which he was appointed on July 13, 1983. I submit that is not a normal situation, whatever the reasons may be. It's just an abnormal situation.

And it does violence to all my experience, and I've been involved in protracted experiences.

Let me ask, and I want the parties to give me a one-word answer. Do you think, if you had an extended period and I extend a reasonable extended period to continue negotiations, you could reach an agreement? Mr. Stern or Mr. Tupper.

MR. TUPPER: I believe in all honesty, I believe that there would be a much smaller number of issues that would have to be resolved by a third party, a very small number of issues. For the bulk of it, we could agree.

MR. SEIDENBERG: Okay. Mr. Jascort?

MR. JASCORT: No.

MR. SEIDENBERG: Mr. Tupper, in some measure a few issues -- and I presume they would be really important issues -- the parties are going to agree, and there are some knuckle breakers in here. I have read the proposals of the parties, and I have minimized the significance of these proposals of the parties. You'd be back, you know. You'd be negotiating, say, for another six months. And then you'd still have to go to a third party. Why don't we go to a third party next week and take care of the problem? Why don't I refer this back to the Federal Service Impasse Panel and let them, because obviously this is an impasse, let them use the traditional use that Congress has provided for, for additional legislative, administrative means? Why don't we give you a chance to utilize it?

MR. TUPPER: Well, we always desire to bilaterally agree to what we can agree to. Furthermore, I

MR. SEIDENBERG: I hope so. That's what I believe in. I believe in full collective bargaining. That's why I was very sympathetic towards Mr. Jascort's request for a cap.

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UNITED STATES DEPARTMENT OF COMMERCE
Patent and Trademark Office
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JUL 17 1985

Honorable Charles McC. Mathias, Jr.
Chairman, Subcommittee on Patents,
Copyrights and Trademarks
Committee on the Judiciary
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I have read with considerable interest your letter of June 28, 1985, concerning present labor-management relations difficulties between the Patent and Trademark Office (PTO) and the Patent Office Professional Association (POPA). I appreciate your statement that you do not intend to prejudge this matter. Consequently, in answering your letter, it is necessary that some background be supplied. I am sure that a brief recital of the history leading to the present situation will help you to appreciate my actions and why I have found them necessary. Further details are contained in the enclosed PTO response to the unfair labor practice charge brought by the POPA at the Federal Labor Relations Authority (FLRA).

The unfair labor practice charge filed by the POPA seeks a temporary restraining order (TRO) to preclude the PTO from exercising the rights that I believe we have. The Federal Service Labor Management Relations Act allows only the FLRA, and not a union, to seek a TRO. Moreover, a court may not grant such relief if it would interfere with the ability of the agency to carry out its essential functions. Since the FLRA has not yet attempted to go to Federal District Court to seek an extraordinary remedy (which it has sought only several times since its inception), and due to what the FLRA has said about the charge, it appears unlikely that the FLRA will seek a TRO. The "compromise" now advocated by the POPA seeks to obtain the same result as a TRO. Thus, the POPA may be turning to individual members of Congress to obtain the result which it has been unable to obtain through the statutory procedures.

The current dispute has arisen out of a four-year effort by management of the PTO to renegotiate the existing labor-management agreement which has been in effect since 1972. During these past four years virtually no progress has been made.

The course of events leading up to the present situation began with a memorandum of June 10, 1981, in which the PTO notified the POPA of its intention to require the POPA to comply with the official time provisions of Articles VI and X of the 1972 agreement. The POPA responded by requesting an agreement on ground rules prior to bargaining over the impact and implementation of management's enforcement of the official time provisions in the 1972 agreement. Despite assistance from the Federal Mediation and Conciliation Service, the parties were unable to come to agreement on ground rules. Instead, on December 22, 1981, the Association accepted a proposal from the PTO that the official time matter be incorporated into bargaining over a new basic contract. The quid pro quo for this offer was an understanding that such bargaining for a new agreement would begin within a short time.

Bargaining for a new basic agreement was first proposed to the Association by management of the PTO on October 21, 1981. The

POPA's response on November 20, 1981, indicated that the union could not select its bargaining team until the PTO explained the problems and concerns that motivated the request for a new agreement. Following the PTO's explanation, the POPA answered on January 12, 1982, that "[i]t is premature to negotiate ground rules before either party submits a substantive proposal...." The POPA added that negotiations would proceed quickly "when both parties have a substantive proposal on the table." Management's proposal for a new comprehensive agreement was given to the Association on July 31, 1982. The POPA finally submitted its proposed contract terms to management on September 24, 1984.

In September 1982, the POPA Newsletter contained a front page article entitled "Current Negotiations". The article's discussion of basic agreement bargaining began by saying:

> "We have just begun negotiations for a new basic agreement. As we explained in our last Newsletter, management's proposal makes no attempt to resolve any new problems. As a result, these negotiations should last for many years."

On the twenty-third of that month the parties held their first meeting to bargain over ground rules. The PTO had its six member team present. The POPA arrived with seven negotiators. The meeting broke up when the POPA team walked out because management indicated that the number of POPA negotiators on official time could not exceed the number of management negotiators. The parties had sixteen additional meetings on ground rules, of approximately two hours or less, from October 26, 1982, through January 11, 1983, without reaching agreement. The Association rejected the PTO's request for more frequent sessions of longer duration. Mediation on January 20, 1983, also proved fruitless.

On January 21, 1983, the PTO requested the assistance of the Federal Service Impasses Panel (FSIP). The POPA then requested that management provide written allegations of non-negotiability of any POPA ground rules proposal. Although the PTO indicated that the only question of negotiability concerned paid overtime for union negotiators, the POPA filed a negotiability petition with the FLRA, on February 14, 1983, in which it asserted multiple issues. The POPA then used its negotiability appeal as a basis to ask the FSIP, on February 28, 1983, to decline jurisdiction over the ground rules impasse.

On March 23, 1983, six months from the September 23, 1982, first ground rules meeting, and therefore, the last day of the statute of limitations, the Association filed an unfair labor practice charge concerning the events surrounding that meeting. Because of the existing impasse, the FLRA deferred action on the charge. Interestingly, in June 1985, after the PTO informed the FLRA that the impasse matter had been closed when Arbitrator Dr. Jacob Seidenberg, former Chairman of the FSIP, withdrew from the case, the POPA immediately dropped the charge.

On May 12, 1983, the POPA filed an impasse request with the FSIP concerning the parties' impact and implementation bargaining over relocations of PTO personnel within the Crystal City complex. As part of its request, the POPA asked the Panel to give this latter dispute priority over the ground rules impasse. The FSIP ordered mediation/arbitration over the ground rules on May 25, 1983. On June 30, 1983, the POPA asked the FSIP to reconsider. On July 23, 1983, the POPA amended its unfair labor practice charge of March 23, 1983, citing matters "inadvertently omitted". The POPA asked the arbitrator to defer proceeding because of the existing charge.

The first meeting with Dr. Seidenberg occurred on August 1, 1983. Because the POPA's team of nine members again exceeded the size of the management team, the session was limited to this one issue. In an interim award dated August 24, 1983, Dr. Seidenberg rejected POPA's position on official time for all nine members.

Further sessions with the arbitrator were held on October 11 and November 17, 1983, and January 11 and 12, 1984. The arbitrator's ground rules award was issued on April 10, 1984.

Dr. Seidenberg formulated guidelines for bargaining which included a specified rigid five-month schedule for bargaining, followed by a return to him with any unresolved matters at the end of that time. The arbitrator's ground rules also included a provision that stayed the PTO from making any changes in terms and conditions of employment during the five-month negotiating period. The parties began negotiating in November, 1984, but the POPA again claimed it was entitled to additional representatives at the bargaining table and Arbitrator Seidenberg again rejected POPA's contention. After the specified five months of bargaining, the parties went back to Dr. Seidenberg. Over thirty articles had been proposed, but the parties had agreed on only the preamble, the recognition article, and a few sections of other articles. They had not progressed beyond Article IV. Dr. Seidenberg stated that he was disappointed at the lack of progress that had been achieved, but ruled that he was without authority to bring these meetings to a halt. He urged the POPA to voluntarily allow a third party to resolve the matter, but the POPA refused. Thereupon, he told the parties to continue to negotiate, using the relevant portions of his ground rules.

The POPA wants all of the arbitrator's ground rules to continue and not just the relevant portions to remain. A few additional facts are necessary before addressing these relevant portions.

First, endless negotiations have served to prevent the implementation of needed change. For example, for four years, the POPA has frustrated implementation of certain changes with respect to performance appraisal. The parties have negotiated on that subject also since 1981. Just last month, the POPA raised some additional negotiability disputes on performance appraisal, and the Federal Service Impasses Panel said it could not resolve the impasse with such issues outstanding. Unfortunately, such prolonged negotiations are not the exception.

Second, at the rate the POPA was using official time prior to my June 7 memorandum, we project that the POPA would consume over 20,270 hours of official time (equivalent to almost 12 full time employees) at a cost of almost a half-million dollars. This cost includes only the time of POPA officials and not the costs incurred by management. The amount of official time used seems high, particularly when you consider that: a) most POPA officials are Grade 14 professionals and many are attorneys; and b) the POPA's bargaining unit consists of less than 1400 scientists and engineers in homogeneous jobs, at a common work site.

Third, some use of official time has been on the basis of past practice which is contrary to the words of the existing 1972 agreement. In fact, the agreement provides for a maximum of eight hours of official time for preparation of a grievance. The POPA's projected use of official time for preparation of grievances for this Fiscal Year is currently projected to be over 3,700 hours, which would be more than 10 times what they would be entitled to under the 1972 agreement. This was among the subjects which the PTO sought to address in June 1981 when we told the POPA that the official time provisions of the agreement would be enforced.

Fourth, normally a collective bargaining agreement during its life precludes regulations from outside the agency taking effect. However, most contracts do not exceed three years. PTO has been blocked from implementing such regulations since 1972.

Fifth, in many instances, past practice will fill in the gaps in a contract until a new one is negotiated. The POPA is insisting its version of past practice to be unchallenged. When the parties last met with Arbitrator Seidenberg on May 10, 1985, he made the following comment about past practice:

> "Where you have the last contract was [sic] negotiated almost a decade ago, I think one has a right to look at the concept of past practice as somewhat suspect. Also, past practice has to be viewed in the context that there have been fundamental changes in the Federal employment relations sector in the last decade, the passage of the Civil Reform Act, the change of the Executive Order, the change even of philosophy of the Federal Government. And how the laws may be to some unions is a fact of life. And I think you have to bargain in that context...."

All this leads to the events the POPA claims threaten its very survival. I view the ground rules of Dr. Seidenberg to have precluded the PTO from making changes only during the five-month negotiating period which he directed in his decision of April 10, 1984.

Consequently, through my June 7, 1985, memorandum, I asked that the POPA comply with the official time provision contained in the 1972 agreement. Also, I believe it is reasonable to now be able to implement government wide regulations that have been promulgated since the inception of the contract thirteen years ago. I have further decided that past practices will no longer be given the same effect as contract terms.

In addition, Dr. Seidenberg had ordered that, during the five-month period, the POPA be allowed to have six members engage in full-time activity on its behalf. I am willing to allow the POPA a block of 144 hours for such activity during any calendar week. This should not be a problem to the POPA, because it can simply reduce the number of representatives it has at the bargaining table, a step which management is also willing to take for the size of the management team.

In short, I have taken some rather minor steps to ensure that the PTO will operate in an efficient and effective manner. The POPA can eliminate any adverse affects of these actions by engaging in productive negotiations over a reasonably short period of time, the time-honored standard of the Federal Service Impasses Panel.

Be assured that our highest priority is to achieve a new agreement. However, I feel that my responsibilities as a public manager preclude me from permitting such significant costs to the agency for what, from past experience, is likely to be an indefinite period of time.

Despite this history, and rather than trading a barrage of charges and counter-charges as to who has been at fault for failure to make progress for the past four years, I prefer to concentrate on what efforts can be made to reach a new agreement. Therefore, I have asked the POPA leaders to join with the PTO in utilizing an impasse resolution mechanism that I believe can move the parties from the present confrontational position to achieve a new collective bargaining agreement. The proposal which I made to the POPA, but which they rejected, calls for "final offer" arbitration, in which an arbitrator selects the entirety of one party's proposals or the entirety of the other party's proposals. This process could be completed in six months. This methodology has a very high success rate in the Federal sector and in state and local public service for stimulating voluntary agreement. It is designed to encourage the parties to move off artificial bargaining positions so that the trade-offs essential to bargaining will ensue.

I have proposed that the arbitrator's decision, on issues where agreement has not been reached, be a selection between the total position of each side on the basis of which strikes the best balance between:

(1) allowing the Union to be effective in performing its representation functions; and

(2) allowing the Office to perform its mission in an efficient and effective manner.

POPA has rejected this criterion.

I hope that this explanation will help you to understand the reasons for the steps I have taken, and why I believe I would be derelict in my duty as a manager if I had failed to act. I am confident that the FLRA will uphold my actions.

Sincerely,

Donald J. Quigg

Donald J. Quigg
Acting Commissioner of Patents
  and Trademarks

Enclosure

UNITED STATES OF AMERICA
FEDERAL LABOR RELATIONS AUTHORITY
1111 18TH STREET NW., SUITE 700
P.O. BOX 23758
WASHINGTON, D.C. 20033-0758
(202) 653-8500

REGION 3

August 27, 1985

Ms. Marni E. Byrum
Attorney at Law
Suite 708
2009 N. 14th Street
Arlington, VA 22201

Re: U.S. Patent and Trademark Office
Case No. 3-CA-50396

Dear Ms. Byrum:

The above-captioned case, charging violations under section 7116 of the Federal Service Labor-Management Relations Statute, has been carefully considered.

As a result of the investigation, it is concluded that the evidence is insufficient to establish that the U.S. Patent and Trademark Office (hereinafter the Activity or PTO) violated section 7116(a)(1), (5), (6), (7) and (8) of the Statute by refusing to comply with an interest arbitrator's award pursuant to a decision of the Federal Service Impasses Panel (FSIP), by admitting that it took such action to pressure the Patent Office Professional Association (hereinafter the Union or POPA) into making concessions at the bargaining table, and by announcing its intention to enforce regulations issued subsequent to the collective-bargaining agreement which are contrary to its terms.

The investigation disclosed that in approximately November 1981, the Activity gave the Union notice that it wished to renegotiate its current collective-bargaining agreement. On or about September 23, 1982, the parties commenced bargaining over ground rules for negotiating a new basic agreement and, on or about January 21, 1983, the Activity requested the services of FSIP.

On or about May 25, 1983, FSIP directed the parties to proceed to mediation/arbitration of the dispute, and on or about July 13, 1983, the parties selected Jacob Seidenberg to be the Mediator/Arbitrator. Seidenberg conducted evidentiary hearings on or about October 11 and November 17, 1983 and January 11 and 12, 1984 (all dates hereinafter occurred in 1984 unless otherwise specified), in which the parties presented their proposals and counterproposals.

On April 10, Seidenberg issued his Decision accompanied by a Ground Rules Agreement. This agreement directed the parties, under prescribed conditions, to bargain for five calendar months. At the end of that period, he provided, if no agreement had been reached on all outstanding issues, the parties would report in writing on the status of all issues. The ground rules award further provided that upon receipt of the parties' reports, Seidenberg would meet with the parties and thereafter issue a supplemental award. The Union filed exceptions with the Authority to the arbitrator's April 10 Decision and Ground Rules Agreement, which exceptions were denied by the Authority on August 31.

Negotiations commenced for a new basic agreement on or about November 6. That same day, the parties filed a joint request with the arbitrator for clarification of the April 10 Ground Rules Agreement, relating to whether the Union could expand the size of its negotiating team in view of concurrent negotiations on both a basic agreement and performance appraisals. Seidenberg issued a clarification on November 10, providing that the Union could not have a permanent expansion of its team during the concurrent negotiations.

On or about April 23, 1985 (all dates hereinafter occurred in 1985 unless otherwise specified), the parties transmitted their respective status reports to the arbitrator, setting forth the results of the five-month bargaining efforts, and on or about May 10 Seidenberg met with the parties to review and discuss the reports. On May 20 Seidenberg issued a "Final Decision and Award" regarding the Grounds Rules dispute and the negotiations. He recommended that the parties continue to bargain in accordance with the framework established by the April 10, 1984 Ground Rules Agreement and stated that if one or both parties concluded that their bargaining efforts were unable to achieve the objective of a new basic agreement, they could invoke their rights under section 7119 of the Statute. He concluded by making the following award:

1) Parties to continue bargaining in accordance with the relevant terms of the April 10, 1984 Ground Rules Agreement.

2) Under appropriate circumstances parties may invoke provisions of 5 USC 7119.

Following May 20, the parties continued negotiating pursuant to the April 10, 1984 agreement. However, by letter dated June 7, Acting PTO Commissioner Donald Quigg notified the Union that the Activity had concluded that based on Seidenberg's May 20 award, it was no longer obliged to comply with the provisions in the April 10, 1984 agreement that Union negotiators be granted up to 40 hours of official time per week for research, preparation and actual negotiations, for each of six negotiators (thus, a total of 240 hours for the Union negotiators each week.) The letter further stated that management would no longer give official time for Union representatives to engage in preparation time but would grant the Union a 144-hour block of time for negotiatons each week and allow the Union, at its option, to spend part of that time for preparation. Section 2(f) of the April 10, 1984 ground rules provided that except for changes in working conditions mandated by statute or government-wide regulation, negotiations regarding the impact and implementation of future management changes would be combined with negotiations for the basic agreement. The decision further stated that unless there was an overriding exigency, the implementation of impact and implementation bargaining should be deferred until there was final agreement on a negotiated basic agreement. The Activity's June 7 letter stated that the Activity no longer was bound by this provision.

The Activity's June 7 letter to the Union also stated that management proposed changing various official time provisions regarding the Union's representation (as opposed to bargaining) functions. As of the time of the investigation herein, the Activity had not implemented any of those proposed changes. On or about June 18, the Activity reduced the total number of weekly hours of official time for Union negotiators from 240 to 144.

The Union takes the position that, after reading Seidenberg's May 20 award in its entirety, he did not mean there would be any changes in the terms of the April 10, 1984 agreement, other than the reporting requirements; thus, by using the word "relevant," he meant merely to exclude provisions requiring the parties to report to him after five months. The Union further contends that it does not expect the Activity to agree to seek a clarification and that Seidenberg would probably not grant such on a unilateral request from the Union (however, to date the Union has neither formally requested the Activity to join in such a motion for clarification, nor attempted to contact Seidenberg for a clarification.) The Activity contends that Quigg's June 7 letter reflects the Activity's interpretation of Seidenberg's May 20 award, specifying the Activity's view of which provisions are "relevant."

Based on the foregoing circumstances, it was concluded that the Activity's actions were not violative of the Statute. In this regard, the crux of the dispute--the proper interpretation of Arbitrator Seidenberg's May 20 decision (specifically, his direction that the parties "continue bargaining in accordance with the relevant terms of the April 10, 1984 Ground Rules Agreement")--is clearly a matter best decided by Arbitrator Seidenberg himself and not under the Statute's unfair labor practice procedures. The situation herein is analogous to cases involving differing and arguable interpretations of a negotiated agreement, as distinguished from actions constituting a clear repudiation thereof. See Social Security Administration, 15 FLRA 614 (1984). The fact that the Activity might have been motivated in part by a desire to put pressure on the Union in negotiations does not change this conclusion, particularly in view of the protracted length of the bargaining process and the apparent inability of the parties to reach an agreement after such a long period of time. Finally, the only change actually effectuated at the time of the investigation of the instant unfair labor practice charge was that related to the official time provisions for the negotiation concerning a new contract (dealt with in Seidenberg's May 20 award). The statements in Quigg's June 7 letter regarding other proposed changes would not in and of themselves constitute a violation of the Statute, in the absence of any implementation thereof.

Accordingly, and in the absence of any evidence that the Statute was violated in any other repsect, further proceedings are not warranted and I am, therefore, refusing to issue complaint in this matter.

Pursuant to section 2423.10(c) of the Regulations, you may obtain a review of this action by filing an appeal with the General Counsel. A copy of the appeal shall also be filed with this office. In addition, you should notify all other parties of the fact that an appeal has been taken.

Such appeal must contain a complete statement setting forth the facts and reasons upon which it is based and must be received by the General Counsel of the Federal Labor Relations Authority, Room 334, 500 C Street, S.W., Washington, D.C., 20424, not later than the close of business Thursday, September 26, 1985.

Very truly yours,

S. Jesse Reuben

S. Jesse Reuben
Regional Director

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

cc: Office of the General Counsel
Federal Labor Relations Authority

Hugh D. Jascourt, Chief
Office of Labor Counsel
Patent and Trademark Office
P.O. Box 2942
Arlington, VA 22202

Office of Appeals
Federal Labor Relations Authority

21. Q. With regard to re-examination: What criteria does PTO use in selecting candidates for re-examination? What outside influences are taken into consideration when PTO decides to select a candidate for re-examination? How many patents have been selected for re-examination? What percentage is that of the total number of patents issued? How many of the re-examinations are the result of third party challenges? What challenges have been made to the regulations governing re-examination? What is the status of such challenges?

A. The Patent and Trademark Office receives requests for reexamination from patent owners and third parties. While the statute authorizes the Commissioner to order reexamination on his own initiative, this authority is used only on a limited basis as reexamination must be cost-recoverable and there is no point in reexamining patents that are of insufficient economic interest for the patent owner or a third party to request reexamination. Once filed, the request for reexamination is reviewed by an examiner having expertise in the subject matter of the patent concerned. The statute sets forth the criterion for deciding whether to order reexamination: whether prior art patents or printed publications raise a substantial new question of patentability as to any claim of the patent concerned. If the examiner determines a substantial new question of patentability is present, he or she will order reexamination.

The Patent and Trademark Office is always sensitive to comments from the public and other branches of the Government. No "outside influence" criteria exist for consideration by the examiner when making the determination as to whether reexamination should be ordered. The determination made by the examiner is based solely on whether the prior art patents or printed publications raise a substantial new question of patentability.

As of July 31, 1985, the Office has received 828 requests for reexamination since the start of reexamination on July 1, 1981. Reexamination was ordered in 662 (84%) of the cases and denied in 123 (16%). Determinations have not yet been made in the remaining 43 requests filed. In addition, reexamination was initiated by the Commissioner in 12 cases. The total number of cases in which reexamination was ordered is 674. Reexamination has been completed and certificates issued in 371 cases. The patentability of all claims was confirmed without change in 85 or 23% of the 371. All claims were cancelled in 47 or 13% and certificates were issued with changes in the claims in 239 or 64%. Requests for reexamination during the current fiscal year through July total 170.

Of the 828 reexamination requests filed since the start of reexamination, 493 (60%) are the result of third party requests; 323 (39%) are the result of patentee requests; and 12 (1%) are Commissioner initiated.

A request for reexamination may be filed for any patent which is still enforceable. Through July of this year 1,691,832 patents have been eligible for reexamination since the start of reexamination on July 1, 1981. The 674 reexamination orders which were issued during this period is 0.04% of this number. The 674 reexaminations ordered represents 0.2% of the number of patents issued since July 1, 1981, though this number is not too meaningful. Since reexamination applies to all enforceable patents but has been available only for the past four years, these figures are not necessarily representative of a steady state condition.

Several aspects of reexamination practice provided for by our rules have been challenged by Patlex Corporation. These challenges to specific rules were part of an overall challenge to the reexamination system. Patlex alleged that the reexamination statute, 35 U.S.C. §§301-307, violated the Fifth Amendment, the Seventh Amendment, and Article III of the Constitution. As to the aspects of the procedures covered by our rules, first, under 37 CFR 1.530(a), we do not permit the patent owner to submit any argument or position papers to the Office before the examiner decides whether to grant a request for reexamination. Patlex argued that this rule violated due process and was not within the mandate of the statute. Second, under 37 CFR 1.515(b) and 1.26(c), a $1,500 filing fee is required to be submitted with a request for reexamination. If reexamination is ordered, the entire fee is retained. If reexamination is denied, $1,200 is refunded under 37 CFR 1.515(b) and 1.26(c). Patlex claimed this practice unlawfully weighs the PTO's initial decision in favor of reexamination.

In addition, they alleged that certain reexamination guidelines published in our Manual of Patent Examining Procedure (MPEP) violated the "due process" clause of the Fifth Amendment, the mandate of the reexamination statute, or the statutory presumption of validity, (35 USC 282). These guidelines included our policy of granting stays in reexamination proceedings only when related litigation has commenced, and our policy to resolve doubts about ordering reexamination in favor of reexamination.

The District Court for the Eastern District of New Jersey held that the statute was Constitutional and upheld the PTO rules and guidelines. Patlex Corp. v. Mossinghoff, 585 F.Supp 713, 220 USPQ 342 (E.D. Pa. 1983). On appeal, the Court of Appeals for the Federal Circuit affirmed the district court on all but one issue in a decision on the original appeal and a decision following rehearing and reconsideration. Patlex Corp. v. Mossinghoff, 728 F.2d. 594, 225 USPQ 243 (Fed. Cir. 1985) and Patlex Corp. v. Mossinghoff, No. 84-699, slip op. (Fed. Cir. Aug. 20, 1985). As to the reversal, the Court held that the MPEP guideline on resolving doubts in favor of reexamination did not comply with the legislative intent. The PTO is modifying its practice to remove this guideline for examiners.

Though the number of reexamination requests being filed is not as high as expected, a survey conducted by the American Intellectual Property Law Association and individual feedback received by the PTO indicates that reexamination has been valuable for most of the patents involved and there is general satisfaction with the manner in which reexamination has been conducted by the PTO. Some sentiment has been expressed for making the procedure more "inter partes", widening the issues which can be considered in reexamination, and making other changes. However, the prevalent feeling seems to be that there is insufficient experience with reexamination and it would be premature to make any changes at this time. Past experience with past inter partes practice in "no fault" reissue practice has indicated that opening reexamination to become inter partes would make reexamination much more expensive and time consuming.

United States Court of Appeals for the Federal Circuit

PATLEX CORPORATION, et al.,
Appellants

v.

Appeal No. 84-699

GERALD J. MOSSINGHOFF, et al.,
Appellees

Alan J. Davis, Wolf, Block, Schorr and Solis-Cohen, of Philadelphia, Pennsylvania, argued for appellants. With him on the brief was Jeffrey S. Saltz.

John F. Pitrelli, Associate Solicitor, U.S. Patent & Trademark Office, of Arlington, Virginia, argued for appellee. With him on the brief were Joseph F. Nakamura, Solicitor and John W. Dewhirst.

Edward M. Posner, Drinker, Biddle & Reath, of Philadelphia, Pennsylvania, argued for appellee Control Laser. With him on the brief were Stewart Dalzell and Wilson M. Brown, III.

Robert W. Duckworth, Duckworth, Allen, Dyer, & Pettis, P.A., of Orlando, Florida, of counsel.

Appealed from: U.S. District Court
for the Eastern District of Pennsylvania

Judge Cahn

United States Court of Appeals for the Federal Circuit

PATLEX CORPORATION, et al.,)
Appellants,)
v.) Appeal No. 84-699
GERALD J. MOSSINGHOFF, et al.,)
Appellees.)

DECIDED: August 20, 1985

Before MARKEY, Chief Judge, FRIEDMAN AND NEWMAN, Circuit Judges.

NEWMAN, Circuit Judge.

ON PETITION FOR REHEARING

Appellants Patlex Corporation and Gordon Gould (herein referred to collectively as Gould) request rehearing of the court's decision of March 7, 1985. Patlex Corp. v. Mossinghoff, 758 F.2d 594, 225 USPQ 243 (Fed. Cir. 1985). We deny the petition to the extent that it relates to our affirmance of the district court's decision that 35 U.S.C. §§ 301-307, applied retroactively, do not violate the Fifth Amendment, or the Seventh Amendment, or Article III of the Constitution; that 35 U.S.C. § 282 does not apply to reexamination; and that Manual of Patent Examining Procedure (MPEP) § 2286 does not violate statutory and constitutional restraints.

We grant the petition to the extent that it relates to Gould's challenge to certain other rules and regulations, viz. 37 C.F.R. §§ 1.26(c) and 1.530(a) and MPEP §§ 2240 and 2244. The district court's judgment upholding these provisions, which we vacated on the premise that Gould lacked standing to challenge them, is reinstated. With respect to that judgment, we affirm in part and reverse in part.

I.

Reference is made to the court's opinion at 758 F.2d 596-98, 225 USPQ 244-46, for the history of this case. At that time we affirmed the district court's decision on Gould's challenge to the constitutional and statutory validity of certain laws and regulations governing reexamination, which Gould had standing to challenge since he had protectible rights which would be affected by our decision. Association of Data Processing Service Organizations v. Camp, 397 U.S. 150, 152-54, (1970); Barlow v. Collins, 397 U.S. 159 (1970); see also L. Tribe, American Constitutional Law 80 & n.4 (1978).

Those regulations and rules on which the court declined to rule relate to the threshold determination by the Patent and Trademark Office (PTO) of whether to grant a request for reexamination. The Commissioner of Patents and Trademarks had advised the court that Gould had conceded that a substantial new question of patentability existed with respect to U.S. Patents Nos. 4,053,845 and 4,161,436, the two Gould patents then undergoing reexamination. This concession was purportedly made to perfect Gould's right to conduct a facial challenge to the reexamination statute prior to exhaustion of the administrative process governing his patents undergoing reexamination. On this basis we held that Gould lacked standing to challenge the legitimacy of the provisions governing the threshold determination, because a decision on their validity or invalidity could have no effect on Gould's situation. Warth v. Seldin, 422 U.S. 490, 502 (1975) ("Petitioners must allege and show that they personally have been injured"); Baker v. Carr, 369 U.S. 186 (1962).

By this petition Gould asserts that he made no concession before either the district court or the Patent and Trademark Office as to the correctness of this threshold determination, for any purpose. The Commissioner now agrees with Gould on this point. We have reviewed the record, and conclude that Gould is correct concerning the absence of such concession and of the need for it. We hold, therefore, that Gould has standing to challenge the lawfulness and constitutionality of 37 C.F.R. §§ 1.26(c) and 1.530(a) and MPEP §§ 2240 and 2244.

II.

The PTO's initial determination whether to grant a request for reexamination is required by 35 U.S.C § 303, which provides in part:

> Within three months following the filing of a request for reexamination . . . the Commissioner will determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request . . . .

Congress in performance of its legislative functions may leave it to administrative officials to establish rules within the prescribed limits of the statute. United States v. Grimaud, 220 U.S. 506, 517 (1911). A statute that is valid on its face may nevertheless be administered in such a way that constitutional or statutory guarantees are violated. As summarized in L. Jaffee, Judicial Control of Administrative Action 321-22 (1965), the availability of judicial review is essential to the integrity of our system of government; it is "the necessary premise of legal validity". Judicial review of administrative action also serves to protect and preserve the separation of powers, a function clarified early in our nation's history. Marbury v. Madison, 5 U.S. (1 Cranch) 137, 176 (1803).

The challenged regulations and rules all relate to implementation of 35 U.S.C. § 303.

37 C.F.R. § 1.530(a)

In accordance with this regulation, the patentee is barred from communicating with the PTO during the three-month statutory period during which the PTO is required to decide whether any substantial new question of patentability is raised by a reexamination request. Gould emphasizes that the PTO must rely solely on the representations of the person who requested reexamination, without opportunity for any explanation or correction by the patentee. The reexamination statute does not prohibit such participation, but 37 C.F.R. § 1.530(a) does:

> [N]o statement or other response by the patent owner shall be filed prior to the determinations [of whether a substantial new question of patentability is raised] . . . . If a premature statement or other response is filed by the patent owner it will not be acknowledged or considered in making the determination.

Gould observes that although administrative decision-making may be easier when only one side of an issue is heard, this has never been viewed as justification for silencing the other side.

Gould asserts that the deprivation of the opportunity to be heard at this critical stage violates due process. He contends that due process requires that he should have had at least a minimum opportunity to contribute information to the PTO before its determination was made. This objection is particularly cogent in the context of the PTO's "rule of doubt", required by MPEP §§ 2240 and 2244.

The Commissioner argues that § 1.530(a) was adopted in the interest of efficiency, in view of the three-month deadline set by Congress in 35 U.S.C. § 303. The PTO points out that the only purpose of this stage of the proceeding is to decide whether reexamination should go forward at all, not to decide how any new question of patentability ultimately will be answered. The Commissioner asserts that the PTO can not accommodate a "flurry of paper" at this stage.

Administrative convenience thus appears to be the sole basis for the rule. Although administrative convenience must be considered, "administrative convenience or even necessity cannot override the constitutional requirements of due process." Cella v. United States, 208 F.2d 783, 789 (7th Cir. 1953), cert. denied, 347 U.S. 1016 (1954); see also Ohio Bell Telephone Co. v. Public Utilities Commission of Ohio, 301 U.S. 292, 304 (1937).

As stated in Cafeteria & Restaurant Workers Union v. McElroy, 367 U.S. 886, 895 (1961), "consideration of what procedures due process may require under any given set of circumstances must begin with a determination of the precise nature of the government function involved as well as of the private interest that has been affected by governmental action". Gould argues that a patent examiner, in processing a hostile request for reexamination, may be unduly influenced by the uncontradicted assertions of the requester, which assertions might not withstand the illumination of even a brief response from the patentee. Gould argues that this threshold decision affects substantial property rights, and should not be made without full hearing, in compliance with the Fifth Amendment.

We consider only whether constitutional due process or the enabling statute requires patentee participation during the initial determination, not whether such participation would be useful or desirable.

A.

Study of the genesis of the reexamination statute leaves no doubt that the major purpose of the threshold determination whether or not to reexamine is to provide a safeguard to the patent holder. As described by then PTO Commissioner Diamond:

> [The statute] carefully protects patent owners from reexamination proceedings brought for harassment or spite. The possibility of harassing patent holders is a classic criticism of some foreign reexamination systems and we made sure it would not happen here.

Industrial Innovation & Patent & Copyright Law Amendments: Hearings on H.R. 6933, 6934, 3806, & 214 Before the Subcomm. on Courts, Civil Liberties and the Administration of Justice of the House Comm. on the Judiciary, 96th Cong., 2d Sess. 594 (1980). That is the only purpose of the procedure established by 35 U.S.C. § 303: "carefully" to protect holders of issued patents from being subjected to unwarranted reexaminations.

Gould argues that the PTO's administration negates this promise by taking an administrative shortcut not authorized by the reexamination statute and not intended by its proponents, thus encumbering Gould's issued patents while their fixed term continues to run.

The legislative history of 35 U.S.C. § 303 reflects congressional intent that the patentee not be required to participate during this threshold period. The Senate Report states:

> When the PTO receives a request for reexamination, the patent holder will be notified, but will not be required to do anything until a decision is made on whether or not a substantial new question of patentability has been raised. If the PTO decides that a question has been raised the patent owner will be allowed to reply to the challenge. Participation by third parties will be limited. The patent reexamination procedure thereby parallels the existing examination procedures.

S. Rep. No. 617, 96th Cong., 2d Sess. 16 (1980)(hereinafter cited as Senate Report). This history is not unambiguous on the precise point of whether the patentee was intended to be barred entirely from participation; but that is the plain purpose of 37 C.F.R. § 1.530(a).

The rulemaking history of § 1.530(a) shows that this concern was raised at public hearings, but was rejected by the PTO. The hearing report issued by the PTO states that "[s]everal persons [of nine who commented on this point] felt that the patent owner should be allowed to comment before the decision [whether to reexamine] under § 1.515 is made. Providing for such a comment would delay the decision under § 1.515 which must be made within three months . . . ." 46 Fed. Reg. 29,176, 29,179 (1981).

Recognizing the closeness of the question, we affirm the district court's conclusion that § 1.530(a) does not violate the statutory framework generally contemplated by Congress; it facilitates the intended rapid determination of whether reexamination should proceed, and is in tune with the Congressional expectation that patent holders would not have to participate during this period.

B.

Although we affirm that § 1.530(a) is within the statutory mandate, Gould has also raised constitutional issues of due process. While due process safeguards have long been applied to the procedures of administrative agencies, a specialized jurisprudence has developed under the ambit of the Fifth Amendment. The sort of provision represented by § 1.530(a), wherein an initial agency action affects property or personal rights, has been considered by courts in many contexts and has led to the formulation of a general test for due process in administrative procedures, summarized in Mathews v. Eldridge, 424 U.S. 319 (1976), as requiring evaluation of three factors:

> First, the private interest that will be affected by the official action; second, the risk of an erroneous deprivation of such interest through the procedures used, and the probable value, if any, of additional or substitute procedural safeguards; and finally, the Government's interest, including the function involved

> and the fiscal and administrative burdens that the additional or substitute procedural requirement would entail.

Id. at 335 (citation omitted).

Evaluating these factors, reference is made to our prior opinion for discussion of the property interests affected by reexamination, 758 F.2d at 599-601, 225 USPQ at 246-48. Although Gould has postulated substantial commercial ramifications of an erroneous decision at the threshold stage, the effect of § 1.530(a) on Gould's property interests is fairly viewed as the temporary deprivation of full enjoyment of patent rights, for the period needed to correct an erroneous determination to reexamine his patents. The constitutional issue is not whether Gould's patents may be reexamined under a retroactive statute, as treated in our prior decision, but solely the impact of an erroneous decision to reexamine, made because the patentee was silenced during the initial determination.

The risk of examiner error due to lack of information -- information that the patentee is able and anxious to contribute -- relates only to the question "whether a substantial new question of patentability . . . is raised", 35 U.S.C. § 303, not the answer to the question. In assessing the risk that an erroneous deprivation will ensue, we take notice that a patent examiner is charged with the experience appropriate to making independent determinations. PTO expertise is a factor to be given weight in considering the risk of error at this stage. See Fahey v. Mallonee, 332 U.S. 245, 253-54 (1947), wherein the Supreme Court was reassured by the knowledge that the challenged administrative determinations were made by disinterested experts. The PTO similarly carries a "heavy responsibility to be exercised with disinterestedness and restraint". Id. at 253-54.

As for the third Mathews v. Eldridge factor, the PTO states that it could not meet the three-month response period if patentee participation were allowed. We have no information on the cost of enlarged proceedings at this stage, nor who might bear the cost, but we do not consider such proceedings impossible of management, and we do not give this factor controlling weight in our review of the constitutional issue.

When considering the constitutional consequences of denying a hearing to those whose property rights are subject to an administrative process that may lead to deprivation of that property, the particular circumstances of the case may control not only entitlement to a hearing, but when during the process the hearing is held. See, e.g., Goldberg v. Kelly, 397 U.S. 254 (1970), which held that provision of only a post-termination hearing to welfare recipients violated procedural due process, in furtherance of the nation's social policy and in recognition of the drastic consequences of an erroneous termination of welfare payments. See also Cleveland Board of Education v. Loudermill, 105 S. Ct. 1487 (1985).

Absent such special considerations, the general rule is that "[t]he demands of due process do not require a hearing, at the initial stage or at any particular point or at more than one point in an administrative proceeding so long as the requisite hearing is held before the final order becomes effective". Opp Cotton Mills, Inc. v. Administrator, 312 U.S. 126, 152-53 (1941); see Ewing v. Mytinger & Casselberry, 339 U.S. 594, 598 (1950), wherein the Court stated "[a]t times a preliminary decision by an agency is a step in an administrative proceeding. We have repeatedly held that no hearing at the preliminary stage is required by due process so long as the requisite hearing is held before the final administrative order becomes effective." Id. (citation omitted).

Administrative regulation § 1.530(a) meets this general standard. The determination that a substantial new question of patentability exists is a preliminary decision. It is not a final determination, and it lacks those special circumstances of irreparable harm which have characterized exceptions to the general rule. As the Court stated in Federal Trade Comm'n v. Standard Oil Co. of California, 449 U.S. 232 (1980), "[w]e need not decide what action a court of appeals should take if it finds a cease-and-desist order [the final agency action] to be supported by substantial evidence but the complaint to have been issued without the requisite reason to believe [the threshold determination]. It suffices to hold that the possibility does not affect the application of the finality rule." Id. at 245 (citation omitted).

The weight of authority supports the conclusion that the patentee's opportunity to participate after the threshold determination, and to appeal from final examiner and agency action, affords the patentee due process under the Fifth Amendment. See Hannah v. Larche, 363 U.S. 420, 440 (1960)("requirements of due process frequently vary with the type of proceeding involved").

We conclude that the provision of 37 C.F.R. § 1.530(a) that bars threshold participation by the patent holder is within tolerable limits of the authority delegated to the PTO by Congress in enacting the reexamination statute, and that it does not violate the due process clause.

MPEP §§ 2240 and 2244.

The Manual of Patent Examining Procedure "is primarily a set of instructions to the examining corps of the Patent Office from the Commissioner". In re Kaghan, 387 F.2d 398, 401, 156 UPSQ 130, 132 (CCPA 1967). It governs the details of PTO examination, is made available to the public, and describes procedures on which the public can rely. Id.

MPEP §§ 2240 and 2244 require the patent examiner, in implementation of 35 U.S.C. § 303, to resolve any doubt as to whether a substantial new question of patentability is raised in favor of granting the request for reexamination. The pertinent provisions are:

> MPEP § 2240. Where doubts exist, all questions should be resolved in favor of granting the request for reexamination.
>
> MPEP § 2244. Any question as to whether a substantial new question of patentability exists should be resolved in favor of granting the request for reexamination.

Gould complains that a patentee is not only deprived of a hearing at the threshold stage under 37 C.F.R. § 1.530(a), but finds all threshold doubts resolved against him: reexamination will ensue whenever the PTO is doubtful about whether reexamination should ensue.

These administrative procedures are not contained in either the statute or the official regulations and apparently received no public hearing prior to adoption. In determining whether they are in reasonable execution of the statute, the legislative history of 35 U.S.C. § 303 is edifying. It expounds the opposite of the practice of MPEP §§ 2240 and 2244. Consider these statements by sponsors and supporters of the legislation: Senator Bayh reported that:

> [T]he Commissioner of Patents and Trademarks has the authority to order reexamination only in those cases which raise a substantial new question of patentability.

Senate Report at 16. Congressman Kastenmeier submitted a report from the House Committee on the Judiciary which affirmed that:

> This 'substantial new question' requirement would protect patentees from having to respond to, or participate in unjustified reexaminations.

H.R. Rep. No. 1307 (part I), 96th Cong., 2d Sess. 7 (1980). Robert Benson said on behalf of the American Bar Association that:

> [B]ecause of the following safeguards in the proposed reexamination procedure, it is unlikely that there will be any substantial amount of harassment . . . The Commissioner must find that 'a new question of patentability' has been created . . . before ordering a reexamination.

Patent and Trademark Law Amendments of 1980: Hearings on H.R. 6933 Before the Subcomm. of the House Comm. on Government Operations, 96th Cong., 2d Sess. 178 (1980). He also noted that:

> [T]he party requesting the reexamination would have the burden of convincing the Commissioner of Patents that a new question of patentability has been raised . . . .

Id. at 176. The Senate Report observed at 17:

> The Commissioner can dismiss the request at [the threshold stage] if no such new question is found to have been raised.

As discussed supra in connection with 37 C.F.R. § 1.530(a), Congress' major purpose in enacting § 303 was to protect patentees against doubtful reexaminations. The implementing regulations, on which public comment was invited, contain no reference to a "rule of doubt" in deciding whether to grant reexamination. This instruction appears only in the MPEP. We find no support for it in the statute or its legislative history.

We have discerned no other interpretation for MPEP §§ 2240 and 2244 than that which contradicts the clear intent of Congress. When Congress enacted 35 U.S.C. § 303 for the purpose of protecting the patentee, it could not have intended an implementation that would negate this protection. We can not endorse such a diversion of the statutory purpose.

> [The courts] must reject administrative constructions of the statute, whether reached by adjudication or by rulemaking, that are inconsistent with the statutory mandate or that frustrate the policy that Congress sought to implement.

Federal Election Commission v. Democratic Senatorial Campaign Committee, 454 U.S. 27, 31-32 (1981). The challenged rule is not "reasonably related to the purposes of the enabling legislation", Mourning v. Family Publications Service, Inc., 411 U.S. 356, 369 (1973), quoting Thorpe v. Housing Authority, 393 U.S. 268, 280-81 (1969).

We conclude that those portions of the MPEP which require the PTO to resolve doubt in the direction of granting the request for reexamination are contrary to the statutory mandate of 35 U.S.C. § 303, and void.

37 C.F.R. § 1.26(c)

Gould also protests against the asserted prejudicial effect of 37 C.F.R. § 1.26(c), which provides as follows:

> If the Commissioner decides not to institute a reexamination proceeding, a refund of $1,200.00 will be made to the requester of the proceeding. Reexamination requesters should indicate whether any refund should be made by check or by credit to a deposit account.

Gould argues that this procedure unlawfully weights the PTO's initial decision in favor of granting reexamination, because only if reexamination is granted will the PTO avoid refunding $1,200 of the $1,500 fee for reexamination. Gould cites as authority decisions finding abuses when fines assessed by a judge, Tumey v. Ohio, 273 U.S. 510 (1927), or by a mayor on behalf of the municipality, Ward v. Village of Monroeville, 409 U.S. 57 (1972), inured to the benefit of those assessing the fines.

The Commissioner argues that the fee is an approximation of the actual cost of reexamination, that the refund reflects actual costs, that the PTO does not profit either way, and thus that the fee structure neither favors nor disfavors reexamination. The reexamination fee is not alleged by Gould to be unrelated to the cost of the activity. There is a clear distinction from the Tumey and Ward cases, since in those cases the fines were discretionary and were levied at the initiative of those benefiting from the income; in the case of the PTO the fees are set by Congress, and are paid by those members of the public who seek the benefits of the service.

In considering appellants' challenge to 37 C.F.R. § 1.26(c), we have placed this challenge in the larger scope of this entire cause. In itself § 1.26(c) does not present so "significant" an issue as to trigger the constitutional and statutory safeguards which are the subject of Gould's action. Boddie v. Connecticut, 401 U.S. 371, 378-79 (1971). It is nevertheless possible that the collective impact can too closely test the limits of acceptable practice. We have considered the full complement of appellants' objections to reexamination, as discussed herein and in our prior decision. 754 F.2d at 594, 225 USPQ at 243. Although there is merit in some of the concerns expressed by Gould, and we have not upheld all of the PTO procedures, we conclude that the balance does not constitute a fatal flaw in the principles guiding reexamination.

III.

Gould's challenge to these rules and regulations is a facial one, in which he asks the court to declare the provisions void due to asserted unlawfulness. Gould brought this facial challenge because, as he acknowledges, he could not challenge at this stage the merits of the PTO's determination to proceed with reexamination. See Federal Trade Comm'n v. Standard Oil Co. of California, 449 U.S. 232 (1980). Gould had already tried without success to persuade the Commissioner to refrain from reexamination due to pending litigation.

Gould asserts that invalidity of the administrative rules here challenged must result in vacation or stay of the ongoing reexamination of his patents, and asks that we remand the case for that purpose. Although we have held unlawful certain portions of MPEP §§ 2240 and 2244, vacation or stay of reexamination is not appropriate.

A party bringing a facial challenge to agency rules or regulations may not need, in certain circumstances, to await final agency action, Abbott Laboratories v. Gardner, 387 U.S. 136 (1967), or to exhaust administrative remedies, Republic Industries, Inc. v. Central Pennsylvania Teamsters Pension Fund, 693 F.2d 290, 296 (3d Cir. 1982), in order to bring a facial challenge. But the general rule is that the requirements of finality and exhaustion are not waived with respect to "as applied" challenges, in which the litigant contests the application of the provision to his situation. This is in part due to judicial economy, and in part due to the need for a well developed record including appropriate findings of fact in order for a court to decide whether a particular provision had been applied to specific facts. Federal Trade Comm'n v. Standard Oil Co. of California, 449 U.S. at 239-245.

Absent finality of the administrative proceeding, absent evidence that the "rule of doubt" was applied in this case, and recognizing the judicial and administrative economies inherent in the fact that Gould's patents have been in reexamination since 1982, we decline to remand for purposes of vacation or stay of reexamination of Gould's patents.

IV.

In summary, we modify our prior decision and hold that Gould has standing to challenge the lawfulness and constitutionality of 37 C.F.R. §§ 1.26(c) and 1.530(a) and MPEP §§ 2240 and 2244. We affirm the district court's decision that

37 C.F.R. §§ 1.26(c) and 1.530(a) are lawful and constitutional. We reverse the district court's decision upholding those provisions of MPEP §§ 2240 and 2244 which impose a "rule of doubt" upon the threshold determination of whether a substantial new question of patentability is raised.

Costs on this petition are taxed to the Commissioner.

MODIFIED, AFFIRMED IN PART AND REVERSED IN PART

22. Q. With regard to PTO's program involving private sector support for training agency personnel: Who are the private sponsors? How much have they contributed to the program? What is the government's share of the program? How do you choose the employees who participate in the program? What steps have you taken to avoid actual, potential or even the appearance of conflicts of interest between agency personnel and private sector participants?

A. The private sponsors of the PTO's Examiner Education Program have been corporations who have contributed 83.4% of the monies, individuals 0.3%, law firms 4.6%, and other organizations 11.7%. A total of $560,305 has been contributed to the PTO since the inception of the program in September 1982. This program covers all travel, tuition, and per diem expenses which are normally covered under Government travel orders. These expenses are subject to regular GSA and Department of Commerce travel regulations. The PTO's share of the program includes paying salary and benefits of examiners during participation in the program. In addition, time is necessary for the administration of the program as well as the coordination of setting up trips.

The selection criteria for examiners are the degree of correlation between subject matter to be viewed and the examiner's assigned art, and the importance of a technical visit or seminar to examination in a specific art. Also taken into consideration are the examiners' experience levels and the amount of time spent on examining-related activities. Normally, these trips are planned by the Supervisory Primary Examiner or Group Director. A list of companies and organizations which have issued invitations for examiner visits is kept and circulated to all Patent Examining Corps supervisory personnel to aid in the planning process. At times, examiners will be requested by name in the invitation from a company. The PTO makes an attempt to accommodate these requests if the examiners in question meet the selection criteria of the Examiner Education Program. A copy of the program's procedures and criteria is attached.

Controls have been instituted to avoid an actual or even the appearance of conflict of interest. All monies are received and specially handled by the Deputy

Commissioner of Patents and Trademarks, the Assistant Commissioner for Finance and Planning, and employees within the PTO's Office of Finance. The funds are "earmarked" and placed in the Commissioner's Gift and Bequest Fund. The contributors' identities are not disclosed to other PTO employees, especially any participants in the program and those who assign the participants in the program. The Assistant Commissioner for Patents administers the program and has no knowledge of who contributes to the program.

Visits are scheduled without knowledge and irrespective of whether the company visited has contributed funds to the program. Examiners are also prohibited from discussing specific applications on visits under the program.

The Examiner Education Program has been extremely successful. Over 650 examiners have visited 349 technical facilities. Examiners are getting a new perspective on how the technology they examine from behind a desk is developed and put to use. They are able to discuss problems and procedures facing those in industrial research. In return, company personnel get a better understanding of the problems faced by the PTO staff during the examination of patent applications. This firsthand look at developing technology is improving the quality of the examination process and of the patents being issued.

EXAMINER EDUCATION PROGRAM

I. Introduction

The U.S. Patent and Trademark Office and Intellectual Property Owners, Inc. are jointly instituting an education program for patent examiners to increase their awareness of industrial technology, particularly in rapidly advancing industrial fields. The program is expected to benefit the patent system and its users by improving the quality of patent examining and by the issuance of higher quality patents.

II. Purpose of this Document

These are guidelines for the implementation of the Examiner Education Program within the Patent and Trademark Office.

III. Required Funding

- A. Up to $350,000 anticipated annually to fully fund program.
  - . Placed in Gift and Bequest fund.
- B. Contributions from:
  - 1. Commercial business concerns
  - 2. Foundations
  - 3. Private individuals
- C. The fund covers all travel, tuition and per diem expenses which are normally covered under government travel orders, but not salary and benefits.

IV. Confidentiality to Avoid Appearance of Conflict of Interest

- . Contributor's identities will be kept from participants and those who designate participants for specific trips.

V. Qualified Participants

- A. Within the A/C for Patents cost center
  - 1. Patent examining corps
    - a. All utility and design examiners having at least one year experience.
    - b. Exceptions for people with less than one year tenure may be made by a Group Director where special justification exists.
    - c. S.P.E.'s.
    - d. Group Directors.
    - e. Participation by part-time examiners and re-employed annuitants may be authorized by a Group Director where special justification exists.
  - 2. Classification groups
    - a. Patent classifiers and post-classifiers
    - b. S.P.C.'s
    - c. Classification Group Directors

3. Office of A/C for Patents
   . Duty of Disclosure Examiners

B. Professionals within other cost centers
   1. Board of Appeals
   2. Board of Patent Interferences
   3. Quality Review
   4. Office of the Solicitor

VI. Terms of Participation in Program of Qualified Personnel Within the Examining Corps

A. Individuals are given opportunity to participate every three years as funds are available.
   . Separate justification for more than one trip within three years requires special approval by Deputy Assistant Commissioner for Patents.

B. Trips are to be of one week duration or less

C. Visit plurality of commercial and industrial installations each trip.

D. Technology viewed is art related.

E. Specific applications pending before examiners visiting commercial or industrial facilities cannot be discussed. 37 CFR 1.133(a) and MPEP 713.08

F. It is to be assumed that all technology demonstrated by a host company is confidential in nature unless otherwise stated.
   . Participants are authorized to sign only standard acceptable confidentiality forms prepared by the PTO.
   . A letter will be sent to each inviting corporation before the visit including a copy of this form.

G. Trips are limited to the continental United States.

H. Appropriate attire (business clothing or other) will be based on the nature of the facilities as determined by contact with the company. Attire should provide for the best possible appearance commensurate with the facilities to be visited as described by the company.

VII. Selection Criteria for Examiners, Ranked in Order of Importance

A. Degree of correlation between subject matter to be viewed and examiner's assigned art.

B. Degree of importance of a technical visit or seminar to examination in a specific art (e.g., newly emerging technologies).

C. Nature and duration of visits taken within previous three years. ·

D. Experience level of examiner in art to be viewed with preference to those with higher experience.

E. Examiners who have spent less than 50% of their time on examining related activities for one year previous to the trip will be given lower priority.

VIII. Use of Funds

   A. Visits to technical facilities.
   B. Technical seminars.

IX. Responsibility for Administering Program within the Cost Center

   A. Assistant Commissioner for Patents
      1. Approval of budget for program.
      2. Travel order approving official.
      3. Evaluation of program effectiveness.
   B. Deputy Assistant Commissioner for Patents
      . Program Administration
         1. Verifies that trips satisfy program criteria.
         2. Initials approval of field trip requests.
         3. Specially approves "exceptional" trips.
         4. Oversight of trip development.
            a. Corps wide trip plan formulation.
            b. Coordination among groups where trips involve participants from more than one group.
   C. Group Directors
      1. Formulation of trip plan for group.
      2. Selection of examiners.
      3. Preparation of travel orders.
         a. Including trip agenda.
         b. Justification.
   D. Office of Patent Program and Documentation Control
      1. Determination of funding level by examining group.
      2. Maintenance of Register of
         a. Trips planned.
         b. Trips taken.
      3. Maintenance of employee participation register.
      4. Reports quarterly by group of:
         a. Number of trips taken.
         b. Number of individuals participating.
         c. Expenditures against allocated funding level.
   E. In the case of the Classification Groups the Administrator for Documentation will assume the duties of the D/A/C for Patents, and the Classification Group Directors will assume the duties of the Examining Group Directors.
   F. In the case of the Board of Appeals, Board of Interferences and Quality review, the Chairmen and Director shall handle the required duties.

X. Travel Orders and Attached Justification Statement

   A. Completed by S.P.E. (S.P.C.) and initialed.
   B. Signed by Group Director.
   C. Initialed by Director of OPPDC.
      (copies kept for statistical purposes)
   D. Initialed by D/A/C for Patents. (Administrator for Doc.)
   E. Signed by A/C for Patents.

XI. Methods of Generating Proposed Remote Industry Technical Training Areas

A. Program publicity via O.G. notice - 1018 OG 27.
B. Companies interested in making commercial industrial facilities available for visits will advise the PTO by a letter describing the nature of the facilities and the number of examiners they are willing to accommodate.
C. Initial contact of corporate officials to arrange for plant visits is limited to Group Directors and S.P.E.'s (S.P.C.'s). Examiners should not solicit plant visits, but when attorneys present invitations to them, they should be referred to the Group Director.
D. The Group Directors determine the value of field trips and who should go, except for the special justification of VI A.
E. Examiners (Classifiers), SPE's (S.P.C.'s) and Group Directors enlarge scope of commercial or industrial sites available for trip consideration.
F. Inviting industrial concerns may suggest visits to other businesses in their immediate area with similar technology.

XII. Methods of Allocating Funds

A. Each examining group normally gets a per capita distribution of the Examining Corp allocation based on the number of eligible personnel in each group, adjusted as necessary to provide an equitable distribution depending upon the location of the facilities visited and other factors and to accommodate the needs of the Office. Variances in a per capita distribution may be authorized such as, when needs in a particular group significantly justify additional funding. Each non-examining organization within the A/C for Patents' cost center will get a separate allocation of funds.
B. Normally funds allocated should be utilized by a group unless special circumstances exist. Redistribution of unused funds among patent examining groups will be by the Deputy Assistant Assistant Commissioner (Administrator for Documentation will distribute in the documentation groups.)
C. Trips will be planned on a quarterly cycle basis.
   . On receipt of the quarterly funding level, Groups will plan trips to be taken within the next six months.

XIII. Other Cost Centers

Other cost centers of the PTO participating in this program will receive a separate funding allocation from the Office of the Deputy Commissioner. The Office of the Assistant Commissioner for Patents will periodically provide them with copies of invitations received. These other cost centers will develop their own program criteria.

XIV. Travel expenses under this program are subject to regular GSA and Department of Commerce travel regulations.

PTO RESPONSES

TO ADDITIONAL QUESTIONS OF SENATOR LEAHY

1. Q. Do you have any idea how the increase in patent and/or trademark fees has affected the number of patents/trademarks sought? Any indication that products are not being patented or trademarks registered simply because the fees are higher than they have been in the past?

A. We are not aware of any discernible impact on the number of patent or trademark applications filed since the advent of the higher fees. Other than the year-end increase in filing that occurred in FY 1982 prior to the fee increase and the subsequent lag of filings in FY 1983, the number of application filings continues to increase.

Fiscal Year	Patent Applications	TM Applications
1979	100,339	50,672
1980	105,046	52,149
1981	107,513	55,152
1982	116,731	73,621
1983	97,448	51,014
1984	109,539	61,480
1985	116,200(estimated)	64,400(estimated)

Thus, we have no evidence that increased fees have adversely affected the decisions of business to file for patents or trademark registrations.

2. Q. If the appropriated budget is held to the $84.7 million figure recommended by the Administration, and the restrictions on your program contained in the House bill are enacted, what will be the effect on the PTO? Please be specific about the budgetary impact and the precise impact on the automation program. Where will the specific cutbacks in that program be made, and how will this affect PTO's ability to meet its goals in the automation effort?

A. Sections 1 and 2 of H.R. 2434 would authorize appropriations for the PTO for FY 86-87-88, reauthorize a 50% subsidy for individuals, small businesses, and nonprofit organizations, and would authorize appropriations to be carried over. If enacted, these sections would not have any adverse impact on PTO operations.

Section 3 of H.R. 2434 would tie all trademark fees and patent service fees to the Consumer Price Index (CPI). Since actual cost changes may be greater or less than the fluctuation in a given year, we might have some problems in a given year or 3-year cycle if the cost changes significantly exceed CPI fluctuations. However, these fluctuations could probably be handled without significant disruptions in service with a reasonable level of carry-over of excess fee income from prior years. Therefore, we do not think this provision would have a significant impact on our services.

Section 5 of H.R. 2434, as passed by the House, would preclude the PTO from using fees to procure automatic data processing resources in FY 86-87-88. If H.R. 2434 was enacted as is, and the appropriation is held to $84.7 million, and the PTO is unsuccessful in obtaining Congressional approval to minimize the damage, the automation program would be severely crippled.

- In patents, appropriated funds available over the next three years would be used to maintain current systems and continue development of a search and retrieval system, but at a much slower rate than originally planned. The extent of this development work would be contingent upon available resources after taking into consideration the cost of maintaining current systems and the contractual costs that will have to be incurred because of the slowdown and possible terminations.

- In trademarks, all trademark automation programs would be terminated. While we have not developed firm estimates of the additional costs to be incurred if the trademark automation program had to be terminated, additional costs would likely be incurred for terminating existing contracts and implementing or retaining manual systems to replace current and planned automated systems which are currently totally funded by user fees.

Of course, we would pursue alternatives to prevent these dire consequences outlined. A critical factor that must be kept in mind is that the adverse impact to the trademark operation will begin on October 1, 1985 -- less that one month from now -- unless relief is received from the Congress.

One of the alternatives to consider would be the one mentioned by Donald W. Banner, President, Intellectual Property Owners, Inc., to the Subcommittee on Patents, Copyrights and Trademarks of the Senate Committee on the Judiciary on July 23, 1985. Mr. Banner's suggestion showed how the PTO could reallocate its FY 1986 resources of public and user funds to and from, respectively, the automation programs. By this reallocation, appropriated funds already proposed in the FY 1986 budget would simply be shifted from supporting previously determined portions of PTO programs to the automation programs. A copy of the Appendix to Mr. Banner's testimony outlining such a reallocation is attached. Clearly, this or any reallocation would require Congressional approval.

While not endorsing the particular reallocation of income sources, i.e., public and user funds, mentioned by Mr. Banner, it would appear that such a reallocation of income sources might be one way to maintain essentially the current operations of the PTO. At the same time, this strategy may address some of the concerns of the House Committee on the Judiciary that those portions of the automation program supported by user fees are not subject to the appropriation process. It is also clear, however, that such a reallocation would lead to a much higher percentage of the costs of the patent process, quality review, solicitor, publication services, and document retrieval systems being supported by user fees - approximately 77%. (This assumes that $16.9 million of additional appropriations would be received by the PTO, an assumption which does not appear likely. Therefore, the percentage of user fee support for these operations would probably be closer to 90%).

Other approaches could be taken with respect to the reallocation of FY 1986 income. For example, a reallocation of income to the automation program could be envisioned on the basis that developmental costs of new automation systems in the form of hardware and software should come from appropriations while maintenance and replacement of these systems on an operational basis should come from user fees.

Section 4 of H.R. 2434 requires that appropriations, not fees, be used to fund public search rooms or libraries. The patent public search room is funded by appropriations in FY 86. However, no funds have been requested for the trademark search library. If H.R. 2434 is enacted, the PTO will have no alternative but to seek Congressional approval to reprogram patent appropriations to fund it. If the reprogramming is not approved, public services in the trademark search library will be reduced.

Section 6 would prohibit the use of exchange agreements for ADP resources other than with government entities. If enacted, we would have to terminate exchange agreements with Compu-Mark, Thomson and Thomson, Mead Data, Pergamon, and Derwent. To terminate the agreements with Compu-Mark and Thomson and Thomson, we would prefer to "buy-out" the agreements at prices to be negotiated. For the others, we would have to investigate the cost of services we now receive under the agreements and determine if funds are available to procure these services. If such funds are not available, termination of the Mead Data, Pergamon, and Derwent agreements will have an adverse effect on patent quality.

3. Q. What would the effect be on your program if Congress passed those same restrictions, but appropriated the $101.6 million contained in the House legislation.

A. The additional $16.9 million in appropriations could be used to fund activities for which user fees are not available under H.R. 2434, but would require a reprogramming approved by the Congressional Appropriations Committees. If the reprogramming were not approved, the effect would be the same as we described in the first part of the answer to Question 2. If a reprogramming similar to the Banner reallocation discussed in Question 2 was approved, we could carry out our FY 86 program essentially as planned.

We would also have an equivalent amount of "excess" user fees available, most of which is now being proposed to offset appropriations. If we received approval, we could use the excess fees to fund programs that improve patent quality. With a reprogramming, these freed-up appropriations could finance activities for which user fees cannot be used. While formal guideline on using excess fees have not been established, we are drafting such guidelines.

4. Q. Isn't the use of fee income to cover the automation system's costs inconsistent with the directive to charge only for services directly benefitting users (i.e., those receiving the trademarks or patents or benefitting from the customer services requested)?

A. In September 1959, the then-Bureau of the Budget, issued Circular No. A-25 entitled "User Charges." Circular A-25 set forth the provisions for establishing user fees for all Federal activities which convey special benefits to recipients above and beyond those accruing to the public at large. According to Circular A-25, a reasonable charge should be made to each identifiable recipient for a measurable unit or amount of Government service or property from which a special benefit is derived. Circular A-25 states that a special benefit will be considered to accrue and therefore a charge should be imposed when the beneficiary obtains more immediate or substantial gains or values (which may or may not be measurable in monetary terms) than those which accrue to the general public. Receiving a patent was cited as such an example in the circular.

While the patent and trademark systems benefit the public, there are very important benefits that flow to the patent owner and the trademark registrant.

Therefore, the Administration believes that fees should recover 100% of the cost of patent and trademark examination and processing, (except for the patent small entity subsidy). To the extent that the automated systems are used for examination and processing, we consider that charging fees to fund the system is fair and in compliance with the OMB circular.

5. Q. The quality of patents issued -- as measured by the validity of the patents -- has long been a concern to users of the PTO. Former Commissioner Mossinghoff has called it a scandal that 7% of the reference materials on which patent searches are based are missing from the search file. Precisely what steps are being taken to remedy this problem, especially in light of the other projects and goals -- notably, those to reduce the time needed to issue patents -- being undertaken by the PTO?

A. While there are many factors which affect the quality of patents, one of the key factors is the content and integrity of the search file. According to one study, between 66% and 80% of the patents invalidated by the courts are invalidated in whole or in part by prior art not cited by the examiner. Obviously, everything we can do to increase file integrity will reduce the number of patents invalidated on the basis of prior art not cited by the examiner.

To place our current efforts to improve file integrity into the proper context, it is useful to begin with the situation that existed ten years ago:

- Although a computer listing of U.S. patents in the classified search file had been developed, some portions of this were incomplete and often inaccurate.
- No inventory record existed for an estimated 10,000,000 foreign patent documents and 1,000,000 technical literature documents.
- The search files provided access to only a portion of the technical literature.
- Reviews of the integrity of the patent search files indicated that from 4% up to 28% of U.S. patents in the files were missing or misfiled, and that, on average, 7% of the U.S. patents were missing or misfiled.
- Efforts to keep the search files current through reclassification of the technology and checking of the paper file against available records were not keeping pace with the growth of the collection.
- No systematic program other than the reclassification program existed for maintaining or improving the integrity of the patent search files.

Several studies of the integrity problem were conducted in the mid-1970's and alternatives were considered to improve the integrity of the paper search file. In 1982, this Administration reconsidered many of the alternatives. These included using sequential numbering of the documents in each of the 115,000 technology categories; using cards that are color-coded to represent a date to replace documents removed from the file; prohibiting the removal of documents from the search file or search file area; and using machine-readable labels on each document to facilitate integrity checks. After extensive review and a trial of certain systems in an experimental search room, it was decided that it was not practical to implement these systems. They would be extremely expensive to initiate and to maintain for the backfile, awkward and time-consuming for examiners or the public to use, difficult to enforce, laden with technical problems such as the later addition of cross references, and, for all these reasons, not effective. Other steps taken by the PTO in recent years include such actions as:

- Establishing in 1977 a search file integrity upgrade program (which consisted of sampling and correcting 3.3% of the search file per year) which was discontinued this year for budget reasons and in anticipation of automation;
- Increasing efforts to improve the completeness and accuracy of the computer record of search file contents;
- Adopting, by rule in 1977, clarifications of the applicants' duty to disclose material prior art to the PTO and establishing a format for the submission of prior art to the examiner in Information Disclosure Statements;
- Increasing security in the Public Search Room and examiner search file areas;
- Establishing goals and a reporting system to monitor the time for refiling patent documents removed by examiners from the search file;
- Establishing a computer inventory of newly received and reclassified foreign patents;
- Conducting periodic integrity checks of the files in the Public Search Room and taking action to gain public cooperation in checking and improving file integrity in the Public Search Room;
- Providing access to commercial data bases through the Scientific Library and later in the Examining Corps on a hands-on basis; and
- Establishing an on-line system for the retrieval of patent classification and inventory data on U.S. patents in the Public Search Room, the Examining Corps, and in Patent Depository Libraries.

These actions help improve patent validity but do not represent a substitute for the most effective action -- the automation of patent search files. With the 26,000,000 document paper search file arranged chronologically in 115,000 technological categories and stored in file cabinets throughout three buildings, with 1,400 examiners removing huge numbers of copies daily to take back to their desk for study, and with many clerks refiling the documents after the examiners have completed their review, complete integrity is not possible. Storage of the search file in electronic form will eliminate the integrity problems inherent in maintaining a huge paper search file as well as provide new search tools for locating relevant documents.

Senator **Mathias**. We have a number of other witnesses, and time is extremely short, so we are going to have to enforce the red light very rigorously, and I hope everyone will understand that.

Our next witness is Mr. Warren Reed, Director of Information Management and Technology Division, General Accounting Office.

Mr. Reed?

STATEMENT OF WARREN G. REED, DIRECTOR OF INFORMATION MANAGEMENT AND TECHNOLOGY DIVISION, GENERAL ACCOUNTING OFFICE, WASHINGTON, DC

Mr. **Reed**. Thank you, Mr. Chairman. I will be brief. With your permission, I would like to summarize my statement for the record.

Senator **Mathias**. Thank you. The full statement will appear in the record.

Mr. **Reed**. I have assisting me today Mr. Quasney and Mr. Heatwole.

I am pleased to be here today to discuss the automation of the trademark operations at the PTO. The focus of my testimony will be on our report, referred to in your opening statement, entitled "Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operations."

Although we are continuing to review PTO's overall effort, my statement today will be limited to our findings in our April report.

Since beginning its trademark automation program in 1981, PTO has spent over $9 million to develop and operate three separate systems which are intended to improve PTO's ability to monitor, retrieve, and search trademark information.

Mr. Chairman, I would like to emphasize that PTO has acquired its automatic data processing services and equipment through monetary procurements and also exchange agreements.

We have found that PTO has encountered management problems with both its monetary procurements and its exchange agreements. While PTO is addressing several of the problems I have noted, we believe its efforts as of April 1985 will not totally alleviate these problems.

I would like to briefly highlight these major problem areas.

First, requirements definition shortfalls. PTO's requirements analyses were inadequate because all three of PTO's ADP procurements did not fully and effectively meet PTO's needs. In our report we cite numerous instances of inadequate requirements definitions, all of which required considerable additional expenditures for requisite corrective action.

Second, automation costs and benefits were not adequately addressed. While PTO identified cost-effectiveness as its major goal of its trademark automation program as we have heard from previous witnesses, PTO used questionable assumptions not fully supported by analytical evidence, and did not discount its analyses in developing the $77 million projected cost savings.

When we recomputed the 1982 cost savings estimate using current cost data, an estimating methodology that properly incorporates discounting, as well as other assumptions suggested by PTO Trademark Office officials, the original estimate of a cost savings actually became a cost increase.

Third, premature acceptance of a contractor product. PTO accepted its most expensive trademark system to date, the search system, in June 1984, before it was fully tested and before all identified problems were corrected. Although a PTO official characterized persistent and continuing problems as minor, the system had not yet met all essential contract specifications as of April 1985, approximately 1 year after its acceptance.

Fourth, problems experienced with the exchange agreements. We noted problems experienced with three exchange agreements, also discussed earlier, between PTO and three different companies to develop computer tapes which serve as the data bases for two of the three automated trademark systems. Although PTO received benefits from the exchange agreements, we noted that the benefits received by PTO were less than the benefits to the companies. This was primarily because PTO and the exchange agreement companies initially placed no value on the provision that PTO would limit the public's use of automated systems in accessing its data base.

PTO received complaints about this restriction and later sought to amend the agreements to allow the public full access to its data base, using PTO's automated search system. The subsequent amendments to the agreements assigned an estimated present value of $3.18 million to this provision, which PTO was to collect in the form of a $30 per hour royalty fee charged to the public and then passed on to the companies. This fee plus other fees addressed in our report contrast markedly with the free access the public has had to date for manual searching.

Another problem noted with respect to exchange agreements is that PTO did not consider these agreements to be procurements, and therefore did not fully comply with the procurement requirements of the Brooks Act and the Federal procurement regulations which included, among other things, maximum practical competition.

These are the major problems I planned to discuss in my summary statement today, that is, PTO did not analyze and sufficiently define its requirements, did not adequately assess the costs and benefits of automating its trademark operations, did not adequately test its largest system before acceptance, and finally, did not manage its exchange agreements properly.

While it appears that PTO can accomplish automating certain aspects of its trademark operations and already has, the problems we have identified raise concerns about whether the initial established goal, to improve trademark registration quality, cost-effectiveness, and reduced application processing time can in fact be achieved.

It is for this reason that we make a series of recommendations in our report intended to give us greater assurance that appropriate procurement practices are followed and that automation goals can in fact be achieved.

These recommendations call for the Secretary of Commerce to direct the Acting Commissioner of PTO to implement a variety of actions that we believe will reduce continued occurrence of the problems accounted today. We also recommended increased oversight by the Secretary of Commerce to ensure proper implementation of these actions by the Acting Commissioner. We added that if PTO does not take steps to implement our recommendations regarding exchange agreements, that Congress should consider withdrawing PTO's exchange agreement authority for ADP resource acquisition.

Mr. Chairman, this concludes my summary statement. I welcome your questions.

[The prepared statement of Mr. Reed follows:]

PREPARED STATEMENT OF WARREN G. REED

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the automation of trademark operations at the Department of Commerce's Patent and Trademark Office (PTO). PTO, in its 1982 Automation Master Plan, established three major goals for its trademark automation effort--improved registration quality, cost-effectiveness, and reduced application processing time. In attempting to carry out these goals, PTO did not properly manage its automation efforts, including the use of exchange agreements to acquire automated trademark data.

My statement summarizes the findings, conclusions, and recommendations provided in our April 19, 1985, report to the Chairman of the House Committee on Government Operations entitled, Patent and Trademark Office Needs to Better Manage Automation of Its Trademark Operations (GAO/IMTEC-85-8). With your permission, I would like to submit this report for the record. Although we are continuing to review PTO's automation effort, my statement is limited to our findings as of April 19, 1985.

PTO's Administrator for Automation had responsibility for managing PTO's automation program. Since beginning its trademark automation program in 1981, PTO has spent over $9 million to develop and operate three separate systems. These systems are intended to improve PTO's ability to monitor, retrieve, and search trademark information. PTO's monitoring and retrieval systems became operational in 1983 and early 1984, respectively. As of April 1985, the search system was not fully operational.

PTO has acquired its automatic data processing (ADP) services and equipment through monetary procurements and is obtaining the associated data bases through non-monetary arrangements, known as exchange agreements. PTO's use of exchange agreements was specifically authorized by the Congress in Public Law 97-247 (approved on August 27, 1982). This authority allows PTO to use items or services of value rather than money to obtain needed goods or services.

Mr. Chairman, we found that PTO has encountered management problems while automating its trademark operations. PTO did not (1) thoroughly analyze or develop requirements analyses for its three automated trademark systems, (2) adequately assess the costs and benefits of trademark automation, (3) fully test its largest system before accepting it from a private contractor, and (4) properly manage its exchange agreements.

PTO has addressed or is addressing several of the problems we noted. However, we believe its efforts as of April 1985 are not enough to overcome all the problems.

CERTAIN USER REQUIREMENTS WERE NOT IDENTIFIED

Federal ADP management regulations required agencies to prepare a comprehensive requirements analysis before obtaining ADP systems. At a minimum, the analysis must include critical factors, such as a study of data entry, handling, and output needs, and the ADP functions that must be performed to fulfill an agency's mission.

Although PTO analyzed user needs, these analyses were inadequate because they did not specify all basic requirements for PTO's trademark systems. Such weaknesses often result, as they did in PTO, in agencies' acquiring systems that do not fully and effectively meet user needs. For example:

--PTO did not identify all essential features needed for its computer terminals used for data editing. As a result, terminals costing $46,000 were purchased without the necessary editing features. Although these terminals were replaced, the replacements were also deficient. These limitations contributed to an unacceptably high input error rate that necessitated a $327,214 contract to verify and correct errors.

--A basic search capability, which Trademark Office and industry officials characterized as fundamental to trademark searching, was omitted from the search system. PTO corrected this problem later at a cost of about $70,000.

--PTO also spent $137,000 for its computer-assisted retrieval system before learning that it could not provide the printout quality required by public users of the system. PTO planned to use this rarely used system for other purposes.

PTO has recognized the incompleteness of its requirements analysis. For example, in a March 1984 memorandum, PTO's Administrator for Automation commented, "The lack of a consolidated, coherent functional requirement document...is a continuing handicap in Trademarks."

AUTOMATION COSTS AND BENEFITS WERE NOT ADEQUATELY ASSESSED

Federal ADP management regulations also required that agencies justify automation activities with a comprehensive requirements analysis, including consideration of "the cost/benefits that will accrue...." PTO identified cost-effectiveness as a major goal of its trademark automation program. Yet in preparing its 1982 cost/benefit analysis of trademark automation, PTO used questionable assumptions not fully supported by analytical evidence and did not discount[1] its analysis in developing a $77 million expected operating cost savings. While PTO's Automation Office contends that the 1982 estimated operating cost reduction is still achievable, the Trademark Office questions the accuracy of this estimate which, among other things, assumed that automation would reduce its annual operating costs by about one-third.

When we recomputed the 1982 cost/benefit analysis using current cost data, an estimating methodology that properly incorporates discounting, as well as Trademark Office officials' assumptions, the original estimated savings became a cost increase. We could not, however, determine whether the Trademark Office's assumptions were more accurate than the original ones because there was insufficient evidence offered by PTO to support either set of assumptions. PTO's Administrator for Automation stated that he did not develop a more refined cost/benefit analysis because PTO's primary goal for trademark automation was to improve registration quality and not cost-effectiveness.

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[1] Discounting is a standard practice by which expected future cash flows are estimated and reduced to reflect the time value of money.

Similarly, PTO's two other major automation goals--improved registration quality and reduced application processing time--were not supported by thorough analysis. In this regard, PTO continued to rely on its manual system because the automated system was not reliable.

SEARCH SYSTEM ACCEPTED WITHOUT BEING FULLY TESTED

PTO accepted its most expensive system--the search system--in June 1984, before it was fully tested and before all identified problems were corrected. Although a PTO official characterized system problems as minor, the system had not yet met all essential contract specifications. For example, in April 1985 the system could not accommodate the number of simultaneous searches required by the contract. PTO officials told us in April 1985 that they plan to request further contractor corrections.

PROBLEMS EXPERIENCED WITH EXCHANGE AGREEMENTS

In 1983, PTO signed exchange agreements with three different companies to develop computer tapes from PTO's records. These tapes comprise the data base of trademark information to be used in the new automated systems. According to PTO officials, the agreements were properly entered under their exchange agreement authority, were developed using appropriate procedures, and were economical. We found several problems with these agreements. Although PTO received benefits from the exchanges, we noted that (1) the benefits received were less than those provided to the companies, (2) maximum practical competition on two agreements was not obtained, and (3) PTO did not adequately consider all future impacts of the exchanges on itself or the public.

The first problem occurred because PTO and the exchange agreement companies initially placed no value on the provision that PTO would limit public access to its data base. PTO received complaints from the trademark industry about this restriction and later sought to amend the agreements to allow the public full access to the search system. The subsequent amendments to the agreements assigned the restrictions an estimated present value of $3.18 million, which PTO was to collect in the form of a $30-per-hour royalty fee charged to the public and then pay to the companies. As of April 1985, this fee was not established, and PTO stated that it intended to renegotiate the exchange agreements, thereby lifting some or all of the public access restrictions.

Because PTO did not consider exchange agreements to be procurements, it did not follow procurement regulations. In contrast, we concluded that exchange agreements were procurements of commercial ADP support services subject to the requirements of the Brooks Act and Federal Procurement Regulations. In addition, we found that PTO did not obtain maximum practical competition as required by the Federal Procurement Regulations on two of the three agreements. Nor did PTO develop specific criteria for deciding when exchanges rather than monetary contracts should be used.

Finally, PTO did not adequately consider all future impacts of the exchange agreements on itself or the public. For example, PTO relinquished control over the use of some of its ADP resources and was required to renegotiate with the companies before it could allow the public to have full access to its automated search system. PTO also restricted its ability to disseminate trademark data using existing technology, such as allowing remote access to its search system through microcomputers. In addition, PTO proposed to charge the public a $70-per-hour fee--$30 for the royalty fee and $40 for other search system costs. These fees contrast with the free access the public has for manual searching.

RECOMMENDATIONS

To help ensure that automation goals and appropriate procurement practices are met, we recommended that the Secretary of Commerce direct the Acting Commissioner of Patent and Trademarks to:

--Reanalyze thoroughly the cost and benefits of PTO's trademark automation activities and ensure that any additional expenditures are justified.

--Review and, if necessary, revise PTO's systems specifications to ensure that all key requirements to support the system's use by PTO personnel and by the public are met.

--Make all reasonable efforts to expeditiously and economically acquire unrestricted ownership of the trademark data bases obtained through the exchange agreements.

--Establish criteria for determining when future ADP resource exchange agreements should be used and develop procedures to ensure that these exchanges comply with applicable federal procurement regulations.

To ensure appropriate oversight, we recommended that the Secretary of Commerce review and approve PTO's response to these recommendations to assure that they are properly implemented. We added that, if PTO does not take steps to implement the above recommendations regarding exchange agreements, the Congress should consider withdrawing PTO's exchange agreement authority for ADP resource acquisitions.

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Mr. Chairman, this concludes my prepared remarks. I welcome any questions you may have.

Senator **Mathias**. Thank you very much.

As you know, there have been very strong emotions in this whole controversy. The passions have been unleashed, and some very harsh things have been said. Let me ask you bluntly, straight-out, this question: Has there been anything criminal that you have observed in your indepth examination?

Mr. **Reed**. Not to my knowledge.

Senator **Mathias**. No violation of any statute?

Mr. **Reed**. Not to my knowledge, no direct violation. In the case of exchange agreements, for example, we feel that the Brooks Act and the attendant regulations have been circumvented, but we would like to think not by intent.

In direct answer to your question, no, sir.

Senator **Mathias**. So you would say—well, I do not want to put words in your mouth. What about indirect violation of any statute? You said circumvention. Is that the same thing as an indirect violation?

Mr. **Reed**. I would like to refer to a legal opinion that we offered, issued in the March timeframe, in response to a query from Congressman Brooks. We concluded there that PTO was operating within the statute in terms of its exchange agreements, within the authority. However, we also concluded that these exchange agreements were, in fact, contracts for the procurement of ADP computer support services, which do come under the edicts of the Brooks Act and the Federal procurement regulations.

Now, we believe, as I believe the previous witness may have alluded to, that the PTO people have a different interpretation than the one that we offered as a legal opinion. So that is about as far as I can go. It could be a question of interpretation. The facts are, however, that we feel, and address in our report, that the procurement regulations, based on our interpretation, were in some cases not followed.

I might add that that was also GSA's position.

Senator **Mathias**. I think that is a serious conclusion and one that we will follow up with some written questions.

Your statement covers trademark automation.

Mr. **Reed**. Yes, sir.

Senator **Mathias**. Have you begun a study of patent automation?

Mr. **Reed**. Yes, sir. We have one in progress. It is in the early stages.

Senator **Mathias**. Is it too early to draw any kind of general conclusions? Are there similar problems, for example?

Mr. **Reed**. I would say it would be premature for me to offer any conclusions.

Senator **Mathias**. Well, I will not press you on that; we can wait for that, but we will obviously be particularly interested in whether or not you find the same kind of pattern of problems.

Is the estimate of cost of trademark automation complete?

Mr. **Reed**. Well, as we stated in our report——

Senator **Mathias**. You say they have spent $9 million since 1981. Does that figure project into the future, or is that only what has happened in the past?

Mr. **Reed**. In the past, those are the actual expenditures that we identified.

Senator **Mathias**. How much more do you think it will cost to complete it?

Mr. **Reed**. Well, first of all, that figure is a small part of the total estimated cost for the trademark automation. The total estimate that PTO made for its Patent and Trademark automation over the next number of years is $700 million, approximately.

Senator **Mathias**. I want to be fair about this: I read into your statement the implication that in the judgment of GAO, the Patent and Trademarks Office has not really exerted an adequate effort to resolve its automation problems. Am I reading you correctly?

Mr. **Reed**. I think I have to rely on the facts to respond to your question. We identified a number of problems which are very basic to the successful implementation of an automation program of the sort that PTO is attempting to implement.

Senator **Mathias**. And you make a number of recommendations as to how you think it can be done better.

Mr. **Reed**. We do.

Senator **Mathias**. Therefore, I read from that that you think that without those steps that are recommended it will not be an adequate effort.

Mr. **Reed**. I would agree with that, yes, sir.

Senator **Mathias**. Are you getting any results from the recommendations?

Mr. **Reed**. Well, the recommendations are somewhat fresh, in terms of time. The only results I have seen—and I do not mean to minimize them—are the efforts that have been initiated by the Secretary of Commerce—and we alluded to the management study, I think, which is going to be made part of the record, which is one action that has occurred since our recommendations have been made. The management study seems to reinforce the importance and the desirability of implementing our recommendations. So in a sense, they are at least moving in the right direction; we see evidence that they are moving in the direction of giving our recommendations some attention. They are by no means at the point where they have followed through in terms of implementing the recommendations we have made.

Senator **Mathias**. We will await with interest and baited breath for the next thrilling chapter. We may have some written questions for you on some of the technical issues you have raised.

Thank you very much.

Mr. **Reed**. Thank you.

[Material submitted for the record follows:]

RESPONSES OF WARREN G. REED TO ADDITIONAL QUESTIONS OF SENATOR MATHIAS

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INFORMATION MANAGEMENT
& TECHNOLOGY DIVISION

August 29, 1985

The Honorable Charles McC. Mathias, Jr.
Chairman, Subcommittee on Patents,
Copyrights, and Trademarks
Committee on the Judiciary
United States Senate

Dear Mr. Chairman:

In an August 14, 1985, letter, you sought answers to questions about our recent report, Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operations (GAO/IMTEC-85-8 dated April 19, 1985) and related testimony, which we presented to your subcommittee on July 23, 1985. Because your questions centered around our report conclusions and recommendations, we have summarized this information to help serve as background material for our answers. This summary, your specific questions, and our answers are presented in enclosures I and II.

In an August 21, 1985, letter to GAO, the Department of Commerce's Assistant Secretary for Administration, indicated several actions the Department has taken or plans to take to respond to our recommendations. Since these actions relate directly to several of your questions, we have provided a copy of the Department's letter as enclosure III. Because of their bulk, we did not provide the attachments referred to in the Assistant Secretary's letter. If you require these attachments, my staff will oblige you.

Sincerely yours,

Warren G Reed
Warren G. Reed
Director

Enclosures - 3

SUMMARY OF GAO REPORT FINDINGS AND RECOMMENDATIONS'

During our review of the Patent and Trademark Office's (PTO's) automation of trademark operations, we found that, PTO did not (1) thoroughly analyze user needs, (2) adequately assess the cost-effectiveness of its systems, (3) properly manage three exchange agreement contracts, and (4) fully test one of its systems before accepting it from the contractor. Consequently, we recommended that the Secretary of Commerce direct the Acting Commissioner of Patents and Trademarks to do the following:

(1) Reanalyze thoroughly the cost and benefits of PTO's trademark automation activities and ensure that any additional expenditures are justified.

(2) Review and, if necessary, revise PTO's systems specifications to ensure that all key requirements to support the systems' use by PTO personnel and by the public are met.

(3) Make all reasonable efforts to expeditiously and economically acquire unrestricted ownership of the trademark databases obtained through the exchange agreements.

(4) Establish criteria for determining when future ADP resource exchange agreements should be used and develop procedures to ensure that these exchanges comply with applicable federal procurement regulations. Also, make sure that PTO thoroughly analyzes the value of future agreements and fully assesses their impact on PTO and the public.

(5) Maintain PTO's manual trademark system until the capabilities of PTO's automated systems are at least equal to the manual system.

To ensure appropriate oversight, we recommended that the Secretary of Commerce review and approve PTO's response to the above recommendations to assure that these recommendations are properly implemented. We also recommended that the Secretary require that any significant procurement actions regarding trademark automation, including new procurements as well as modifications to or renewals of existing procurements, undergo departmental review and approval. We noted that this requirement should remain in place until the Secretary is satisfied that PTO has appropriately reanalyzed the costs and benefits of it's trademark automation and has reviewed the systems' specifications.

GAO RESPONSES TO QUESTIONS CONCERNING PATENT AND TRADEMARK OFFICE AUTOMATION

CHAIRMAN MATHIAS' QUESTIONS AND GAO'S RESPONSE

Chairman Mathias' Question 1

In your testimony and report, you listed a number of recommendations for the PTO's trademark automation program.

(1a) What is an appropriate timetable for PTO compliance with those recommendations?

(1b) Are you continuing to monitor their activities to ensure they comply, and if so, will you be putting out a follow-up study?

(1c) When will you complete your study of the patent automation program?

GAO Response to Question 1A

We believe that, within 1 year, PTO should comply with four of the five recommendations we directed to PTO and that PTO should establish a goal for completing the fifth recommendation. No timetable should be established for our recommendations regarding appropriate oversight by the Secretary of Commerce, (see encl. I for a summary of our recommendations).

Because PTO had done some of the work required when it first planned its automation effort, 1 year should provide PTO with sufficient time to thoroughly reanalyze the costs and benefits of trademark automation and to review and revise, if necessary, trademark system specifications, (recommendations 1 and 2).

Similarly, it is reasonable to expect that, within 1 year, PTO could acquire unrestricted ownership to the trademark data bases developed through its exchange agreements, (recommendation 3). However, it should be noted that to acquire such unrestricted ownership PTO will have to negotiate with the exchange agreement companies. Consequently, it could take longer than a year.

PTO also should be able to establish criteria for determining when to use ADP resource exchange agreements and procedures for accomplishing future exchanges within a year[1], since such procedures should essentially incorporate the already well-established procedures for monetary acquisition, (recommendation 4).

Because we received conflicting information during our review on the state of PTO's automated systems and because we did not attempt to verify the automated system's current reliability compared to that of the manual system, we cannot estimate how long PTO will need to establish that its automated system capabilities are at least equal to its manual files, (recommendation 5). Furthermore, because of the importance of these trademark files to the validity of the trademark registration process, we believe it would be imprudent to burden PTO with a specific time limit for implementing this recommendation. Nevertheless, PTO should establish a goal for expeditiously completing this recommendation.

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[1] The timing of when PTO should have its exchange agreement criteria and procedures established, however, will also depend on the outcome of PTO's 1986 through 1988 authorization bill. Since the House of Representatives' version of the bill (H.R. 2434) includes a provision that would prohibit PTO's using its exchange agreement authority for ADP resource acquisitions for the next 3 years, the need to establish criteria and procedures for ADP resource acquisitions may be effectively delayed until fiscal year 1989, if this bill becomes law.

Our recommendation to the Secretary of Commerce for added oversight should continue until all of our recommendations to PTO are fully implemented.

GAO Response to Question 1b

We are continuing to monitor PTO activities to ensure that they comply with our recommendations. However, we do not plan a follow-up study of the trademark automation area at this time because Commerce has indicated that it is planning to correct the problems identified during our review. In this regard, Commerce's Assistant Secretary for Administration outlined in an August 21, 1984, letter several activities Commerce has undertaken to ensure that PTO in taking corrective actions. (See encl. III.)

GAO Response to Question 1c

We plan to complete our ongoing review of PTO's patent automation effort by July 1986.

Chairman Mathias' Question 2

In your testimony before the subcommittee you indicated that PTO circumvented the Brooks Act and the attendant regulations in their exchange agreements.

(2a) Could you please be more specific and describe how the PTO did not abide by government procurement requirements as stated by the Brooks Act and other procurement regulations?

(2b) Have you noticed any effort by the PTO to adopt your recommendations?

(2c) How would you recommend correcting the exchange agreements?

(2d) What steps do you suggest PTO take to ensure that its problems with exchange agreements do not reoccur?

GAO Response to Question 2a

In reviewing PTO's actions regarding exchanges, we concluded that PTO did not obtain maximum practical competition, as required by the Federal Procurement Regulation, on two of the three procurements. PTO's May 1983 exchange agreements with Thomson and Thomson and Trademark Computer Research, Inc., are contracts for commercial ADP support services, which were subject to the Brooks Act and the Federal Procurement Regulation. We believe that PTO did not obtain maximum practicable competition on these exchanges for the following reasons:

--PTO did not publicly announce that it was seeking proposals for the kinds of data to be provided under the Computer Research and Thomson agreements. January and February 1983 notices in the Commerce Business Daily and the Official Gazette, respectively, announced a PTO exchange agreement with Compu-Mark (the first exchange agreement) and invited proposals from other interested firms for materials and services that were the same as or equivalent to Compu-Mark's offer. However, the Computer Research and Thomson offers were not the same or equivalent proposals because the data provided by these companies were different than that provided by Compu-Mark. The companies would provide computer tapes of images and the text of future trademark applications and Compu-Mark would provide computer tapes of the text of all trademarks active at the time of its agreement.

--PTO had limited contacts with companies regarding the preparation of computer tapes of images or of future trademark applications and other documents. According to PTO officials, PTO's contacts were confined to a total of four companies for the image and future trademark application tasks. (PTO officials stated that they had other contacts with companies for ADP resources during January 1983 through May 1983. They added, however, that PTO did not specifically discuss future text or image proposals.)

--The announcements of the Computer Research and Thomson agreements in the May 20, 1983, Commerce Business Daily did not invite proposals from other interested firms for materials and services that were the same as or equivalent to these two agreements. Rather, the announcements requested proposals only for exchanges of materials and services. (The May 20, 1983, Commerce Business Daily notice stated, "The PTO welcomes proposals from other suppliers for the exchange of materials and services.") These requests were consistent with PTO's policy on exchange agreements, which was published in the Federal Register on May 5, 1983. Under this policy, PTO will consider a proposal for a particular kind of exchange and is not required to solicit competitive proposals. PTO's policy states that:

> "Due to resource limitatons and the necessity for diversity in the program, only one offer will normally be accepted for a given PTO incentive. If substantially similar offers are received within any 45-day period, they will be evaluated and/or negotiated together. The offer which provides the best total consideration for the Government will be accepted."

Consequently, we believe that PTO did not obtain maximum practical competition on the second and third exchanges. PTO did not publicly announce requests for proposals and had limited contacts with companies regarding its proposals before it entered the Computer Research and Thomson agreements. Therefore, PTO was unable to ensure that it would receive enough offers from firms that could meet its needs at the lowest overall cost, price and other factors considered. PTO also was not prepared to enter into other arrangements that were competitive with the Computer Research and Thomson agreements. Both its invitation for proposals in the Commerce Business Daily announcements and its exchange agreement policy did not contemplate that there would be other agreements for the type of data bases Computer Research and Thomson would furnish. (We found no documentation that established the basis and justification for PTO's sole-source selection of Computer Research and Thomson, as required by 41.C.F.R.S. 1-4. 1206-5.)

GAO Response to Question 2b

The August 21, 1985, letter from Commerce's Assistant Secretary for Administration (provided as encl. III) indicates that PTO will follow our recommendations regarding exchanges, (recommendation 3 and 4). The letter states that the Department will establish criteria for determining when exchanges should be used and develop procedures to ensure that future exchanges comply with federal procurement regulations, (recommendation 4). The letter adds, however, that the Department does not consider the exchanges to be procurements and thus does not believe that it was required by the Brooks Act or procurement regulations to take this action.

While the letter does not specifically address PTO's actions in response to our recommendation concerning the acquisition of unrestricted ownership of exchange data bases (recommendation 3), it indicates that buy-outs of existing exchange agreements will meet congressional and public concerns and refers to a draft plan to implement all of our recommendations. Commerce stated that it planned to release this plan in 45 days.

GAO Response to Question 2c

We believe PTO's existing exchange agreements could be improved if PTO adopts our recommendation and makes all reasonable efforts to expeditiously and economically acquire unrestricted ownership of the trademark data bases obtained through the exchange agreements.

GAO Response to Question 2d

Regarding actions PTO should take to help prevent future problems with exchanges, we believe PTO should follow our recommendation that it (1) develop and follow procedures that ensure that its exchange agreements comply with applicable federal procurement regulations and (2) establish criteria for determining when exchange agreements should be used in lieu of monetary procurements. Federal procurement regulations were designed to ensure that agencies achieve basic procurement goals, such as ensuring that maximum practical competition is met. These goals are equally valid for exchange agreements. Because of several unusual aspects of exchanges, PTO must supplement these procurement regulations, as appropriate, to ensure that it thoroughly analyzes the values established for future exchanges and the impact of all exchange provisions on PTO and the public.

Chairman Mathias' Question 3

In the cost/benefit section of your report you quote divergent opinions within PTO on the automation program. How could this have been prevented?

GAO Response to Question 3

As we stated in our report, PTO's Automation Office and Trademark Office disagree on the extent, if any, of cost savings expected from automation. Neither office supported its position with adequate documented analytical evidence. Before embarking on a project of this scale, PTO should require either that a consensus be reached on anticipated costs and benefits by the offices affected by the project or that the range of these differing estimates be presented to ensure that a more complete indication of the project's potential outcome is disclosed. Furthermore, in either situation analytical evidence must be documented to support the consensus view or the range of expected outcomes. A consensus obviously was not reached at PTO considering the wide disparity of views that we were given. Also, the range of PTO's differing estimates was not presented in PTO's 1982 Automation Master Plan.

Chairman Mathias' Question 4

In your report you state that PTO did not achieve maximum practicable competition in two of its three exchange agreements. Please explain the basis for this statement.

GAO Response to Question 4

Our response to this question is presented in response to question 2a.

Chairman Mathias' Question 5

In your report you state that PTO's exchange agreement partners received about twice the value that PTO received from the agreements. Please elaborate?

GAO Response to Question 5

Since PTO's exchange agreements initially did not involve money, the two parties assigned values to the items to be exchanged. In a fair exchange these values would have been approximately equal. In the PTO exchanges, the stated values were presented as being approximately equal but the actual values, as subsequently established, were not equal. One of the provisions in the PTO agreements was that PTO would not allow the public greater access to PTO's automated search system than "comparable and equivalent" assess to the manual system. However, no value was assigned to this provision. Therefore, PTO did not receive something of value for this provision. Later, when PTO asked that this provision be modified so that the public could access the full search system, it was required by the companies involved in the exchange to collect royalty fees from the public. The present value of these fees was $3.18 million. Thus, the value to be received by the companies (in items and money) was approximately $3.18 million more than the value PTO was to receive. Consequently, PTO did not receive equal value in the exchanges.

While this arrangement has not become operational because the automated system has not yet been offered for use by the public (and may not become operational if PTO completes its planned "buy-out" of the exchange restrictions), the subsequent arrangement clearly indicates that the exchange companies received a greater value from the agreements than that received by PTO. (Currently, the public is not charged for using PTO's manual system.)

UNITED STATES DEPARTMENT OF COMMERC
The Assistant Secretary for Administration

AUG 21 1985

Honorable Charles A. Bowsher
Comptroller General of the
United States
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Bowsher:

Enclosed is the Department's response to your report to the Chairman, Committee on Government Operations, House of Representatives titled "Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operations."

These comments are prepared in accordance with the Office of Management and Budget Circular A-50.

Sincerely,

Kay Bulow

Kay Bulow
Assistant Secretary
for Administration

Enclosure

Exec. Sec. Control No. 514190s
OMO/MCD/JLynn/mic/7/15/85

cc: A/S Chron SEC
OMO Chron HR
MCD Subj. GC
Exec. Sec. IG

COMMENTS OF DEPARTMENT OF COMMERCE
ON FINAL GAO REPORT
ENTITLED

PATENT AND TRADEMARK OFFICE NEEDS
TO BETTER MANAGE AUTOMATION OF ITS TRADEMARK OPERATIONS

IMTEC-85-8

APRIL 19, 1985

To respond to the concerns and recommendations contained in the report the Department has taken the following actions:

First, on June 3, 1985, Deputy Secretary Brown requested that the Institute for Computer Sciences and Technology (ICST) of the National Bureau of Standards conduct a review of the technical aspects of the Patent and Trademark Office's Trademark and Patent Automation Project plans and progress. The purpose was to assess objectively and independently whether the trademark automation effort is meeting the established objectives. They also determined whether the progress to date and activities underway were consistent with objectives established for the project. The ICST's final report is expected by September 30, 1985. An interim report on Trademark Automation is enclosed.

Second, the Assistant Secretary for Administration (AS/A) established a departmental task force to examine management practices being used by the Patent and Trademark Office to administer the automation project, to assess the adequacy of departmental oversight in all aspects of the automation project, and to recommend needed changes to the Assistant Secretary. The task force was made up of staff from the Office of the Inspector General, the Economic Development Administration, the Patent and Trademark Office, the National Oceanic and Atmospheric Administration, and the Office of the AS/A. Employees were selected with backgrounds in budget and finance, management analysis, procurement, and internal control. The task group has completed their review and a copy of their report is enclosed.

The recommendations have been accepted by the Acting Assistant Secretary and Commissioner of Patents and Trademarks, and an implementation plan has been developed which addresses the recommendations in the GAO Report. This is currently under review by the Deputy Secretary.

Since the Department did not have the opportunity to comment on the draft GAO report, we have not addressed the findings and conclusions contained in the final report. However, the Department disagrees with the GAO that the exchange agreements were procurements of commercial ADP support services subject to the requirements of the Brooks Act and the Federal Procurement Regulation. This is based on opinions of PTO and Departmental Counsels that the Brooks Act, 40 U.S.C. s 759, and subpart 1-4.12 of title 41, Code of Federal Regulations, do not apply to these exchange agreements because PTO does not obtain automated data processing services or support services under these agreements. Nevertheless, we are aware of the sensitivities of the Congress and the public on this matter. For future exchange agreements, the Department will establish criteria for determining when ADP resource exchange agreement should be used and develop procedures to ensure exchanges comply with Federal Procurement Regulations. We will also ensure that buy-outs of the existing exchange agreements meet the concerns of the Congress and the public.

The Department will advise GAO within 45 days of this response what specific actions the Deputy Secretary has directed the Department to take to implement all of the recommendations in the GAO report.

BY THE COMPTROLLER GENERAL

Report To The Chairman, Committee On Government Operations House of Representatives

OF THE UNITED STATES

Patent And Trademark Office Needs To Better Manage Automation Of Its Trademark Operations

At the request of the Committee Chairman, GAO reviewed automation efforts at the Department of Commerce's Patent and Trademark Office (PTO). GAO found that, in attempting to automate its trademark operations, PTO did not (1) thoroughly analyze user needs, (2) adequately assess the cost-effectiveness of its systems, (3) properly manage three exchange agreement contracts, and (4) fully test one of its systems before accepting it from the contractor.

PTO has addressed several of these problems, but it needs to do more. GAO makes recommendations to the Congress and to the Secretary of Commerce to assist PTO in correcting problems noted in this report.

GAO/IMTEC-85-5
APRIL 19, 1985

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-217448

The Honorable Jack Brooks
Chairman, Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

This letter responds to your July 11, 1984, request that we conduct a review of the automation of the trademark operations at the Department of Commerce's Patent and Trademark Office (PTO). In 1980, the Congress required PTO to prepare a plan to identify its automation needs and, if necessary, develop an office-wide automation system. In 1981, in response to this mandate, PTO began planning automation of its trademark operations. Since then, it has spent over $9 million to develop and operate three automated systems. In February 1985, PTO estimated the trademark automation effort would cost $22.4 million in developmental and operational costs through 1988.[1]

On the basis of your request and later discussions with your office, we examined management issues relating to automation of PTO's trademark operations. Specifically, we focused on PTO's (1) analyses of system user requirements, (2) a 1982 trademark automation cost/benefit analysis, and (3) contracting practices and procedures for acquiring the automated trademark systems. We contacted PTO and industry officials, reviewed their files, and obtained affidavits from certain individuals about matters on which we had received conflicting information. This letter summarizes our findings and presents our conclusions and recommendations. Appendix I provides specific details on our review.

In its 1982 Automation Master Plan, PTO established three major goals for its trademark automation effort--improved registration quality, cost-effectiveness, and reduced application processing time.

To accomplish this, PTO has acquired automatic data processing (ADP) services and equipment through monetary procurements; it is acquiring the associated data bases through non-monetary arrangements, known as exchange agreements, with firms that provide trademark related services. Under the exchange agreements, PTO agreed to provide the firms with trademark data for the firms' own use and accepted restrictions on public access to certain automated trademark information. In return, the firms agreed to produce and provide copies of PTO's trademark data bases in machine-readable form. PTO is moving forward with its automation effort. However, we found that, because of the manner in which this effort has been managed to date, PTO has little assurance of meeting its goals.

PTO has encountered four distinct types of management problems in its trademark automation activities. PTO did not (1) thoroughly analyze or develop the functional requirements for its or the public's use of its three automated systems, (2) adequately assess the costs and benefits of its automation systems, (3) properly manage its three exchange agreements, and (4) fully test its trademark search system before accepting it from the contractor.

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[1] Trademark automation costs are a part of PTO's office-wide automation program that PTO estimated in 1982 to cost at least $719.9 million through 2002. PTO's estimate did not separate trademark and patent automation costs. Also, PTO omitted significant trademark automation costs in its 1982 cost/benefit analysis. However, it did include estimated cost reductions that would result from the automation effort.

PTO has addressed or is addressing several of the problems we noted. However, we believe its efforts to date are not enough to overcome all the problems.

AUTOMATING TRADEMARK OPERATIONS

Trademarks are words or symbols that identify and distinguish products and are used to indicate the origin of goods and services. Trademarks are registered with PTO primarily to help protect the owner's rights to the trademark.

PTO's Administrator for Automation and his staff (hereafter the Automation Office) manage the office-wide automation program and were responsible for developing the automation plan, including identifying requirements and developing PTO's cost/benefit analysis. PTO's primary users of the automated trademark systems are under the Office of the Assistant Commissioner for Trademarks (hereafter the Trademark Office). The public currently uses PTO's manual search files and those elements of the automated system that are fully operational. The public will have access to additional elements of the automated system as they become operational.

As part of its automation effort, PTO has automated three trademark operations involving information searching, monitoring, and retrieving. The search system is being developed by the System Development Corporation; PTO developed the other two systems. In general, these systems were intended to improve PTO's ability to (1) search existing trademarks to ensure that confusingly similar trademarks are not registered, (2) monitor the status of trademark applications, and (3) microfilm, retrieve and print copies of PTO's original trademark documents. PTO's automated monitoring and retrieval systems became operational in 1983 and early 1984, respectively.

PTO has experienced difficulty in using its search system. PTO accepted the search system from the contractor in June 1984 when it was not in a position to test all of the system's features. Furthermore, it has had to supplement the automated search system with manual searching because, according to the Assistant Commissioner for Trademarks, the data base contains too many errors for use without manual verification. As of April 1985, the system was not fully operational.

PTO has announced that it plans to eliminate its manual search facility after the automatic search system becomes fully operational and reliable. As of April 1985, PTO had not specified when this would occur.

In 1983, PTO entered exchange agreements with three companies to obtain computer tapes of trademark information (machine-readable data bases) to be used on its automated monitoring and search systems. In general, the companies agreed to type (key enter) data from PTO's trademark records onto computer tapes and provide these tapes to PTO for use in its automated trademark systems. In return, PTO agreed to (1) provide copies of trademark data tapes and related documents for the companies' own use and (2) place certain restrictions on public access to the trademark data base. Under the existing manual searching process, no restrictions exist.

With respect to the initial exchange agreement restrictions, the public would not be allowed to use the more advanced capabilities of PTO's planned automated search system to access the trademark data. For example, the public would not be able to search phonetically for trademarks that sound alike. The companies wanted restrictions on the automated system to ensure that PTO's search system did not compete with their trademark search business, according to PTO and company officials. Thus, at the time the agreements were entered, if PTO had terminated manual searching according to its announced intentions, the effect of the public access restriction might have been to force the public to do business with one of the exchange companies or forego the more effective trademark search techniques.

CERTAIN USER REQUIREMENTS WERE NOT IDENTIFIED

Federal ADP management regulations required that agencies prepare a comprehensive requirements analysis before they acquire ADP systems. At a minimum, the analysis must include critical factors, such as a study of data entry, handling, and output needs, and "the ADP functions that must be performed to meet the mission need."

While PTO performed analyses of user needs, we believe these analyses were inadequate because they did not specify all basic requirements for PTO's trademark systems. Such weaknesses often result, as they did in PTO, in agencies' acquiring systems that do not fully and effectively meet user needs.

In developing its trademark application monitoring system, for example, PTO did not identify all essential features needed for its computer terminals used for data editing. As a result, PTO purchased terminals without the necessary editing features. These terminals were replaced by other terminals available to PTO. The replacement terminals were also deficient. According to Trademark Office officials, the limitations of the terminals have contributed to an unacceptably high data-entry error rate that necessitated a $327,214 proofreading contract to correct the errors. PTO also spent $137,000 for its computer-assisted retrieval system before learning that it could not provide the printout quality required by public users of the system. In addition, in planning its trademark search system, PTO omitted a basic search routine that industry and Trademark Office officials characterized as fundamental to trademark searching. Subsequently, PTO identified and corrected this problem through a contract modification costing about $70,000.

We also found indications that PTO recognized the incompleteness of its requirements analysis. PTO's Administrator for Automation, in a March 1984, internal memorandum, stated:

> "The lack of a consolidated, coherent functional requirement document...is a continuing handicap in Trademarks.... From a systems point of view, it would have been more efficient, over the long haul, to have deferred the development of the ATS [Automated Trademark System] system, including especially TRAM, [the monitoring system] until the long-range concepts was [sic] solidified. Of course, that would have delayed all aspects of Trademark automation and the consequent benefits from it. This was a major consideration in following the current course."

AUTOMATION COSTS AND BENEFITS NOT ADEQUATELY ASSESSED

Federal ADP management regulations also required that agencies justify automation activities with a comprehensive requirements analysis, including consideration of "the cost/benefits that will accrue...." PTO's 1982 cost/benefit analysis indicated that automating the trademark operations would reduce its operating costs by about $77 million over a 20-year period. However, PTO omitted significant cost estimates of acquiring and operating its automated trademark system in computing the $77 million cost reduction estimate. Also, according to the Administrator for Automation, PTO's analysis did not separate trademark and patent automation costs because the cost portion of the study was done on a PTO-wide basis. We also found that PTO's analysis was inadequate because it was based on assumptions that lacked analytical support and because PTO did not discount[2] the expected cost savings. Because of these insufficiencies, we believe the savings estimates are not reliable.

The current Trademark Office officials question the accuracy of the 1982 cost reduction estimates which, among other things, assume that automation will decrease Trademark Office annual operating costs by about one-third. Although the Administrator for Automation considers these estimated operating cost reductions achievable, the Assistant Commissioner for Trademarks and the Trademark Office staff stated that the one-third assumption is too high, leading to an exaggerated cost reduction estimate. The estimate's margin of error could be significant. If the 1982 analysis is recomputed using current cost data, an estimating methodology that properly incorporates discounting, and a more conservative estimate that there will be a 10 percent reduction in Trademark Office operating costs (according to Trademark Office officals, the highest achievable percentage)--the original estimated cost reduction becomes a cost increase. We could not determine the reasonableness of the assumptions of either group of officials because there was insufficient evidence offered to thoroughly support either set of assumptions.

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[2] Discounting is a standard practice by which expected future cash flows are estimated and reduced to reflect the time value of money. The Administrator for Automation said that PTO did not discount the expected trademark cost savings it presented in the cost/benefit analysis section of its 1982 Automation Master Plan.

PTO's Administrator for Automation said that he did not develop a more refined cost/benefit analysis because PTO's primary goal for trademark automation was to improve registration quality by using more comprehensive trademark searches on a more complete trademark file. He added that cost-effectiveness was not the primary automation goal. PTO's 1982 cost/benefit analysis, however, did not document support for the expectation of improved registration quality.

PROBLEMS EXPERIENCED WITH EXCHANGE AGREEMENTS

PTO's use of exchange agreements was specifically authorized by the Congress in Public Law 97-247 (approved on August 27, 1982). This authority allows PTO to use items or services of value rather than money to obtain needed goods or services. To date, PTO has not developed specific criteria for deciding when exchanges rather than monetary contracts should be used.

In 1983, PTO signed three exchange agreements with three different companies to acquire a data base of trademark information. PTO officials told us that the agreements were properly entered under PTO's exchange agreement authority, developed using appropriate procedures, and economical. We found, however, that while PTO received benefits from the exchanges, (1) the benefits PTO received were less than those provided to the companies, (2) the approach PTO used to develop the exchange agreements was inappropriate, and (3) maximum practical competition on two agreements was not obtained. Lastly, PTO did not adequately consider all future impacts of the exchanges on itself or the public.

In negotiating the terms of the exchange agreement, PTO and the companies initially placed no value on a provision that PTO would limit public access to its data base. As a result, the companies received greater value than did PTO. Subsequently, PTO and the companies assigned an estimated present value of $3.18 million to this contract provision. This value was based on PTO's estimate of the costs of creating the data base primarily by means of a monetary key-entry procurement.

On March 13, 1985, we issued a legal opinion on PTO's exchanges. We concluded that the exchanges were procurements of commercial ADP support services subject to the requirements of the Brooks Act and the Federal Procurement Regulation. The General Services Administration, which has authority over such ADP procurement matters, has agreed with our position. PTO's official position, as stated in an April 10, 1985, letter to us is that PTO does not believe that exchanges are procurements under the Brooks Act. Consequently, none of the exchange agreements were developed with the procurement regulations in mind. Furthermore, in reviewing PTO's actions, we concluded that PTO did not obtain maximum practical competition as required by the Federal Procurement Regulation on two of the three procurements.

PTO also agreed to terms that restricted its control over its resources, adversely affected public access to data, and were uneconomical. For the last few years, PTO made certain data tapes available for sale to the public. PTO accepted a provision that required it to fix higher prices for future sales to the public of these data tapes. Also, because of the provision restricting public access, PTO had to ask the private companies for permission to provide the public access to the full range of capabilities of its $10 million search system. The companies assented only after PTO agreed to a charge to the public. The charge included royalty payments to the companies with an estimated present value of $3.18 million. There are other restrictions limiting PTO's ability to distribute data tapes.

PTO recently announced that it intended to negotiate the purchase of additional rights to the trademark data from the companies, thereby lifting some or all of the existing restrictions. Whether this negotiation will be successful had not been determined as of April 12, 1985.

SEARCH SYSTEM ACCEPTED WITHOUT BEING FULLY TESTED

PTO's search system contract with the System Development Corporation stipulates that government acceptance of the system is "contingent upon the system passing all tests associated with the acceptance program." The image retrieval subsystem was an integral part of the search system.

We found that PTO excluded from the acceptance program any tests of the image retrieval subsystem because it knew that the necessary data base would not be available in time for the scheduled delivery of the subsystem. PTO made an agreement with the contractor to test the image retrieval subsystem at a later date. Nevertheless, PTO chose to officially accept the entire search system based on a partial test. Furthermore, PTO stated in a June 21, 1984, letter to the contractor that "tests were conducted in accordance with the specifications of the RFP [request for proposals] and all requirements were satisfied. Based on the results of the acceptance testing, the PTO accepts the Trademark Search System."

In a test in November 1984 to determine image retrieval capabilities, the system performed searches over 20 minutes, not 16 minutes as the contract required. Since the average search time specified in the contract, 16 minutes, was equal to the average manual search time, this test demonstrated that the system was slower than the old manual approach. In an April 1985 retest, the system achieved the 16-minute requirement. A PTO Trademark Office official told us that, during this third test, the system could not accommodate 10 simultaneous image searches; a PTO contracting official confirmed that the contract requires the system to accommodate at least 24 simultaneous design searches. Trademark Office officials corroborate the current inadequate search capability.

A PTO automation official acknowledged that the search system was accepted before all testing requirements were met. He characterized the problems as minor and ultimately correctable by the contractor. PTO's Assistant Commissioner for Finance and Planning said funds could be withheld should the contractor not meet contract requirements, such as average search timeliness. However, PTO's contracting official told us that PTO could not withhold funds to ensure performance. Regardless of which official is correct and whatever other recourse that may be available to PTO, these difficulties could have been avoided had PTO better managed its acceptance test program, particularly the test schedule associated with that program. In April 1985, PTO officials told us that they were planning to request further contractor corrections.

CONCLUSIONS

While it appears that PTO can accomplish the automation of certain of its trademark operations, the existing functional requirements and cost/benefit analyses do not furnish an adequate basis for determining whether the results will achieve the initially established goals: improved registration quality, cost-effectiveness, and reduced application processing time. Correcting the deficiencies we have noted will require incorporating information beyond that contained in PTO's original analyses; this includes a comprehensive, functional description of the requirements to support the systems' use by PTO personnel and by the public. It should also employ the appropriate methodology in the cost/benefit analyses.

PTO's acceptance of equipment without adequate testing is illustrative of the problems in PTO's management of trademark automation. Failure to adhere to accepted principles in such areas has exposed PTO to risks of substandard performance in the completed system, and has contributed to the currently deficient search system.

The manner in which PTO has administered its exchange agreement authority in obtaining machine-readable data bases for its trademark systems has also created problems. PTO did not achieve the maximum practical level of competition in two of its three exchange agreements. Also, the specific terms of the exchange agreements created additional problems. The most visible of these is the restriction (accepted by PTO as part of the exchange agreements) on PTO's freedom to offer information on trademarks to the public.

PTO is attempting to redress some of these problems by renegotiating the restrictive elements of the exchange agreements. However, it is clear that at least some of the underlying causes are not being treated. Specifically, PTO persists in claiming that its exchange agreements for ADP resources are not procurements subject to the Brooks Act and to its applicable regulations. As previously noted, we disagree with this position. We are concerned that PTO may choose to execute future exchange agreements without complying with applicable procurement regulations and thus evade the procedures designed to ensure the maximum practical competitiveness and cost-effectiveness of its procurement actions.

RECOMMENDATIONS

To help ensure that automation goals and appropriate procurement practices are met, we recommend that the Secretary of Commerce direct the Acting Commissioner of Patents and Trademarks to:

- --Reanalyze thoroughly the cost and benefits of PTO's trademark automation activities and ensure that any additional expenditures are justified. This analysis should (1) include updated cost information estimated according to standard practices, (2) incorporate the views of Trademark Office officials, and (3) include support for the key assumptions.
- --Review and, if necessary, revise PTO's systems specifications to ensure that all key requirements to support the systems' use by PTO personnel and by the public are met.
- --Make all reasonable efforts to expeditiously and economically acquire unrestricted ownership of the trademark data bases obtained through the exchange agreements.
- --Establish criteria for determining when future ADP resource exchange agreements should be used and develop procedures to ensure that these exchanges comply with applicable federal procurement regulations. Such criteria and procedures should also require that PTO thoroughly analyze the value of future agreements and fully assess their impacts on PTO and the public.

To ensure appropriate oversight, we recommend that the Secretary of Commerce review and approve PTO's response to the above recommendations to assure that they are properly implemented. Until the Secretary is satisfied that PTO has appropriately reanalyzed the costs and benefits of PTO's trademark automation and reviewed the systems specifications, the Secretary should also require that any significant procurement actions regarding trademark automation efforts, including new procurements as well as modifications to or renewals of existing procurements, undergo departmental review and approval. This should include exchange agreement procurements.

We also recommend that the Secretary direct PTO to maintain its manual trademark system until the capabilities of its automated systems are at least equal to the manual system.

MATTER FOR CONSIDERATION OF THE CONGRESS

If PTO does not take steps to implement the above recommendations regarding exchange agreements, the Congress should consider withdrawing PTO's exchange agreement authority for ADP resource acquisitions.

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We discussed key facts with agency program officials and made such changes as appropriate to reflect any relevant factual information they provided. However, we did not share our conclusions and recommendations with PTO's responsible officials or the contractors, nor did we request official agency or contractor comments on a draft of this report. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report for 30 days from its date of issuance. We will then send copies to the Secretary of Commerce, the Acting Commissioner of the Patent and Trademark Office, and other interested parties, and will make copies available to others upon request.

Sincerely yours,

H S Havens

Acting Comptroller General
of the United States

PROBLEMS EXPERIENCED IN AUTOMATING TRADEMARK OPERATIONS

In 1981, in response to a 1980 congressional mandate (Public Law 96-517) to prepare a plan to identify and, if necessary, develop office-wide automation, the Department of Commerce's Patent and Trademark Office (PTO) initiated a 20-year automation program. In its 1982 Automation Master Plan, PTO estimated that this program would cost about $720 million.[1] PTO plans to use automation to achieve paperless trademark and patent operations by 1990. The trademark automation effort, involving three automated systems and data base exchange agreements, is an important component of PTO's office-wide program. In February 1985, PTO estimated costs for trademark automation operation and development at about $22 million through 1988.[2]

This appendix details the results of our review of PTO's trademark automation efforts. In summary, we found that PTO did not (1) thoroughly analyze or develop the functional requirements for its or the public's use of its three automated systems; (2) adequately assess the costs and benefits of automation; (3) accurately value its three exchange agreements, effectively develop its first exchange, or achieve maximum practicable competition on its second and third exchanges; and (4) fully test its trademark search system before accepting it from a private contractor.

PTO'S TRADEMARK AUTOMATION EFFORTS

Trademarks--words or symbols that identify and distinguish products--are used to indicate the origin of goods and services.[3] Trademarks are registered with PTO primarily to help protect the owner's rights to the trademark.

Several PTO units are involved in PTO's trademark automation program. The Administrator for Automation and his staff (hereafter the Automation Office) manage the program. The Administrator reports to the Assistant Commissioner for Finance and Planning who reports to the agency head, the PTO Commissioner. The automation program is designed to support PTO's two primary operational programs: granting patents and registering trademarks (responsibilities of the Assistant Commissioners for Patents and Trademarks). The primary users of PTO's automated trademark systems are under the Office of the Assistant Commissioner for Trademarks (hereafter the Trademark Office).

In addition, the office responsible for automatic data processing (ADP) contracting at the Department of Commerce, with the assistance of the PTO automation staff, developed and implemented contracts (except exchange agreements) for resources until October 1984. At that time, PTO established an in-house contracting office which is now responsible for all trademark automation contracts, except exchange agreements. This office reports to the Assistant Commissioner for Administration. PTO does not consider the exchange agreements to be procurements. The Automation Office developed and implemented the agreements that were signed by the Commissioner. According to PTO officials, the contracting office of the Department of Commerce was not involved in the exchanges, and the PTO contracting office only recently (December 1984) became involved when PTO decided to buy items that it originally sought to obtain through exchange agreements.

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[1] PTO's 1982 Automation Master Plan listed a high, 20-year cost estimate of $810.9 million and a low estimate of $719.9 million. The plan did not separate patent and trademark costs. PTO's Administrator for Automation told us that PTO could not separate trademark automation costs in the 1982 plan.

[2] According to PTO's Assistant Commissioner for Finance and Planning, trademark automation cost estimates range from about $16 million to $22.4 million, depending on the program composition.

[3] Service marks are used with services. Hereafter, for simplicity, both types of marks will be referred to as trademarks.

During 1982, PTO's Automation Office developed the Automation Master Plan to guide automation over the next 20 years. The plan discussed PTO's mission, general organizational requirements, automation management, and work tasks, and included a cost/benefit analysis of PTO automation. As part of the plan, PTO established three major goals for its trademark automation effort--improved registration quality, cost-effectiveness, and reduced application processing time. The plan, which was reviewed by several automation experts from other agencies and the public, stated that PTO should complete the task of specifying user requirements.

Since 1981, PTO has developed three systems to improve trademark operations. In total, these systems and related support cost over $9 million during fiscal years 1983 and 1984, according to a February 1985 PTO briefing document on trademark automation.[4] The most expensive of the three systems--the trademark search system--was developed to improve PTO's trademark search activity, a key step in the registration process which involves comparison of an applicant's trademark to other applications and the approximately 600,000 existing, registered trademarks to determine if the same or confusingly similar trademarks have already been applied for or are registered.

This automated search system, which PTO acquired through a contract that provides for eight yearly renewals with the System Development Corporation, is estimated to cost about $10 million. PTO reported that it spent about $2.2 million on this search system through fiscal year 1984, the first year of the contract. The trademark application monitoring system was internally developed and was designed to monitor the status of trademark applications. PTO reported that this system cost about $2 million through 1984. PTO's computer-assisted retrieval system, which was designed to microfilm, retrieve, and print copies of PTO's original trademark documents, reportedly cost about $200,000 through 1984.

PTO's monitoring and retrieval systems became operational in April 1983 and February 1984, respectively. PTO accepted its search system from the contractor in June 1984. PTO has announced that it plans to eliminate the manual search facility after the automated search system becomes fully operational. As of April 12, 1985, PTO had not specified when this would occur.

In 1983, PTO signed three non-monetary (barter-type) exchange agreements with three private companies to obtain computer tapes of trademark information in a machine-readable form. On April 12, 1984, one exchange company acquired another and their agreements were consolidated into a new agreement with PTO in June 1984, leaving only two exchange agreements. These non-monetary agreements were for the exchange of items and services between PTO and the companies. PTO has authority to enter exchange agreements for items or services pursuant to Public Law 97-247 (August 27, 1982). These three contracts, with reported PTO costs of about $500,000 through 1984, were initially valued at about $3 million. Computer tapes obtained through these exchanges are used on PTO's searching and monitoring systems. PTO's remaining trademark automation costs of about $4 million cover such items as system engineering support and staffing.

In general, in return for the companies' typing PTO's data onto computer tapes (key-entering), PTO provided the companies with copies of registered trademark and application documents (from which trademark data tapes were developed) and agreed to provide future trademark tapes and to restrict the public's access to the trademark data. This [illegible] in contrast to the existing manual searching process which has no such restrictions.

With respect to the initial exchange agreement restrictions, the public would not have been allowed to use the more advanced capabilities of PTO's planned automated search system to access the trademark data. For example, in conformance with exchange agreement restrictions, the search system contract did not allow the public to search phonetically for trademarks that sound alike. The companies wanted restrictions on the automated system to ensure that PTO's search system did not compete with their trademark search business, according to PTO and company officials. Thus, at the time the agreements were reached, if PTO had terminated manual searching according to its announced intentions, the effect of the public access restriction might have been to force the public to do business with one of the companies or forego the more effective trademark search techniques. In response to outcries from the trademark industry, PTO is considering allowing full-search access for a fee. The public currently uses PTO's manual search files and those elements of the automated system that are fully operational.

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[4] We did not attempt to determine PTO's 1981 and 1982 agency-wide costs, such as the cost of PTO's planning that culminated in its December 1982 Automation Master Plan. The Assistant Commissioner for Finance and Planning stated that PTO did not incur costs prior to 1983 for the current monitoring system (an upgrade of an earlier PTO system) or its other automated trademark systems.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review responds to a July 11, 1984, request from the Chairman of the House Committee on Government Operations and subsequent discussions with his office. The objectives of our review were to evaluate the (1) adequacy of PTO's analyses of trademark systems' user requirements, (2) adequacy of PTO's 1982 analysis of the costs and benefits of trademark automation, (3) propriety of PTO's exchange agreements for a trademark data base, and (4) effectiveness of PTO's trademark automation contracting.

We reviewed PTO's evaluation of user needs, its 1982 cost/benefit analysis of trademark automation, and the three trademark data base exchange agreements. We did not review all PTO exchange agreements. We performed our review from August 1984 to April 1985, primarily at PTO in Arlington, Virginia.

In conducting this review, we interviewed PTO officials, trademark company officials, and officials representing trademark associations; reviewed their files; and analyzed PTO's automation planning documents and applicable federal laws and regulations.[5] We also obtained several sworn statements from individuals on key areas of controversy where we had received conflicting information.

With respect to user requirements, we analyzed PTO's requirements analyses to ascertain their completeness and the reasonableness of the assumptions used. We also contacted system users to determine their input and resulting impact on the development of PTO's systems. With respect to automation cost-effectiveness, we analyzed the cost/benefit analysis section of PTO's 1982 Automation Master Plan and reviewed available analytical documented evidence. With respect to exchange agreement propriety, we reviewed the previously cited laws and regulations and compared PTO's actions to these requirements. We also contacted industry and private-company representatives to confirm the information provided by PTO officials and to determine industry awareness of PTO's intent to enter exchange agreements and the impact of industry awareness on agreement competitiveness. Finally, with respect to PTO's automated search system, we reviewed the system contract, monitored some aspects of PTO's November 1984 system testing, and contacted users to determine whether the search system was meeting or was expected to meet their needs.

We discussed key facts with agency program officials and made such changes as appropriate to reflect any relevant factual information they provided. However, we did not share our conclusions and recommendations with PTO's responsible officials or the contractors, nor did we request official agency or contractor comments on a draft of this report. Except for these steps, our work was performed in accordance with generally accepted government auditing standards.

CERTAIN USER REQUIREMENTS WERE NOT IDENTIFIED

Federal Property Management Regulation Subchapter F, Part 101-35, required that before agencies acquire an ADP system, they must prepare a comprehensive requirements analysis to include, at a minimum, such critical factors as a study of data entry, handling, output needs, and "the ADP functions that must be performed to meet the mission need." We found that PTO did not develop detailed and complete requirements before acquiring its automated systems. While PTO subsequently corrected some of these oversights, PTO's incomplete analyses led to the acquisition of systems that do not fully and effectively meet user needs.

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[5] The applicable laws and regulations included 40 United States Code Section 759 (the Brooks Act), Public Law 96-517, Public Law 97-247, Federal Procurement Regulation Subparts 1-1 and 1-4, and Federal Property Management Regulations Subpart 101-35.

PTO did not adequately specify the requirements for its $10 million automated search system and, as a result, omitted important automated search features. For example, several PTO officials stated that they forgot to include a requirement for a basic searching technique in the December 1983 contract with the System Development Corporation. Industry and Trademark Office officials characterized this search technique as fundamental to trademark searching. PTO learned of the omission during system acceptance testing in May 1984 and subsequently modified the contract to include this requirement at an estimated cost of $70,255.

Similarly, PTO did not fully analyze or adequately specify searching requirements for public searchers prior to contract award, even though it allocated about one-third of the search system's terminals for public use. PTO announced in 1983 that the public's access to its automated search system would be "comparable and equivalent" to manual methods available at PTO's public search room. (In the December 1983 search system contract, PTO stated that the public would receive comparable and equivalent access, and PTO subsequently broadened and further specified what it meant by such access; however, this had not been incorporated in the contract.) In June 1984, after an outcry from the trademark industry regarding PTO's plan to restrict public access, PTO decided to offer the public full search system access, including the advanced search techniques that were desired by the public but were not previously planned for the public.

In July 1984, PTO issued internal guidelines specifying what it meant by "comparable and equivalent" and, in August 1984, issued a change order for the contractor to modify the system to reflect the July 1984 guidelines. In October 1984, after completion of about $11,000 worth of work in this area, PTO cancelled this change order provision until it could resolve the public-access issue. As of April 1985, a final determination had not been made on the degree of modification which PTO's search system will undergo to allow full use by the public. An official from PTO's Automation Office told us he expected that the system changes required will be significant enough to require another contract modification.

PTO's two other trademark systems--the monitoring and retrieval systems--were also deficient, at least partially because of inadequate requirements analyses. According to Trademark Office officials, the monitoring system does not provide an adequate text-editing capability and, according to the Assistant Commissioners for Administration and Trademarks, the retrieval system does not produce the quality of paper required by and promised to public users. In developing the monitoring system, PTO did not identify all essential features needed for its computer terminals used for data editing until after it bought $46,000 worth of terminals that did not have the necessary capabilities, according to PTO officials. Consequently, PTO stored most of these terminals in a warehouse for about a year until it found another use for them. In addition, Trademark Office officials told us the terminals currently in use also do not have an adequate editing feature and have contributed to an unacceptably high input error rate, resulting in a $327,214 contract to verify and correct the errors. The Assistant Commissioner for Finance and Planning noted that these replacement terminals are scheduled for another replacement in August 1985. Similarly, in developing the retrieval system, PTO purchased microfilming equipment and a small computer for $137,000 before discovering that the system's hard copy printouts do not meet the needs of public searchers. Thus, according to PTO officials, the computer, which cost at least $67,000 is rarely used. The Administrator for Automation said that PTO currently plans to use the system for other purposes.

We also found indications that PTO recognized the incompleteness of its requirements analysis. PTO's Administrator for Automation, in a March 1984, internal memorandum, stated:

> "The lack of a consolidated, coherent functional requirement document, as was developed for patents, is a continuing handicap in Trademarks. This lack was the result

> of the more disjunctive approach to developing the Stage 1 Automated Trademark System (ATM) at the outset of the program. From a systems point of view, it would have been more efficient, over the long haul, to have deferred the development of the ATS system, including especially TRAM [the monitoring system], until the long-range concepts was [sic] solidified. Of course, that would have delayed all aspects of Trademark automation and the consequent benefits from it. This was a major consideration in following the current course."

While PTO performed analyses of user requirements, we believe these analyses were inadequate because they did not ensure that all basic requirements were specified for its trademark systems. Such weaknesses often result, as they did in PTO, in agencies' acquiring systems that do not fully respond to their needs. The previously mentioned comments from the Administrator for Automation regarding why PTO proceeded as it did, indicate that trademark automation was rushed so that PTO could obtain anticipated benefits of automation as quickly as possible. Nevertheless, PTO's incomplete analyses have resulted in systems that do not fully meet its needs.

AUTOMATION COSTS AND BENEFITS NOT ADEQUATELY ASSESSED

Federal Property Management Regulation Subchapter F, Part 101-35 required that agencies justify automation activities with a comprehensive requirements analysis, including consideration of "the cost/benefits that will accrue as a result of this performance." PTO's 1982 cost/benefit analysis indicated that automating the trademark operations would reduce its operating costs by about $77 million over a 20-year period. However, PTO did not include significant cost estimates of acquiring and operating its automated trademark system in computing the $77 million cost-reduction estimate. Also, according to the Administrator for Automation, PTO's analysis did not separate trademark and patent automation costs because the cost portion of the study was done on a PTO-wide basis and PTO's analysis of trademark automation did not reduce the total savings by expected trademark systems' acquisition and operating costs. While PTO prepared a cost/benefit analysis of trademark automation in 1982, this analysis was inadequate because it was based on assumptions that lacked analytical support and was not discounted. Because of these insufficiencies, we believe the savings estimates are not reliable. Other claimed automation benefits, such as increased registration quality and reduced application processing time, also were not supported by thorough analysis.

PTO's Automation Office and Trademark Office officials disagree on the extent, if any, of cost savings expected from the automation of trademark operations. PTO's Administrator for Automation told us that PTO's initial assumptions about life-cycle cost savings are still appropriate. However, PTO Trademark Office officials, including the Assistant Commissioner for Trademarks, contend that PTO's 1982 estimates, which were expected to start occurring in 1985, are based on questionable assumptions and are substantially overstated. PTO used several assumptions in its 1982 automation analysis to estimate that about one-third of the trademark budget could be saved annually through automation. For example, the Administrator for Automation explained that the 1982 analysis was based on the assumption that PTO would save money by eliminating a recurring trademark publication printing contract. However, the Assistant Commissioner for Trademarks and the Trademark Office staff disagree with this assumption. They explained that although PTO planned to eliminate this contract, any savings would be offset by the need for additional clerical support and additional editing and proofreading costs that probably would continue indefinitely. When we presented this information to the Administrator for Automation, he reiterated his opinion that overall costs would be reduced over time by the initial estimate of about one-third of the budget annually. He added that although the Trademark Office officials may be correct about the offsetting costs, he still anticipated significant cost savings even though he could not specify when or exactly where they would occur.

Internal PTO disagreements over cost-savings assumptions are important because the different assumptions produce very different results. For example, if the 1982 cost/benefit savings estimate of $77 million is recomputed using current cost data, an estimating methodology that properly incorporates discounting, and a more conservative estimate that there will be a 10-percent reduction annually in Trademark Office operating costs (according to Trademark Office officials, the highest achievable percentage), the original estimated cost reduction becomes a cost increase. We could not determine the reasonableness of the assumption of either group of officials because there was insufficient evidence offered to support either set of assumptions.

Views of PTO officials on actual automation impacts to date also differ. On April 12, 1985, the Assistant Commissioner for Finance and Planning stated that the contract required for printing a recurring publication with annual costs of about $700,000, was being eliminated because PTO was now performing the contractor functions. He added that PTO will achieve actual savings from this contract cancellation even though there are some offsetting costs and stated that PTO related these actual savings to the Congress in a report on its automation progress. In contrast, the Assistant Commissioner for Trademarks stated that the contract cost savings is more than offset by about $1.3 million in new costs PTO was incurring to perform the functions.

With respect to the issue of discounting, the Administrator for Automation told us that PTO's 1982 analysis did not discount the 20-year gross savings projection to reflect the time value of money. We discounted the 1982 projections and found that the $77 million savings indicated in PTO's 1982 analysis is reduced to less than $41 million by such discounting.[6] The Administrator for Automation stated that PTO did not develop a more refined cost/benefit analysis because PTO's primary goal for trademark automation was to improve registration quality by using more comprehensive trademark searches on a more complete trademark file. He added that cost-effectiveness was not the primary goal.

PTO's anticipated benefits of improved registration quality and reduced application processing time also have not been supported by thorough PTO analysis. PTO planned to improve registration quality through improved file integrity by ensuring that its loosely bound paper search files were more accurate and complete in an automated data base form. While PTO officials have commented about lost and misfiled trademarks, PTO did not quantify the extent of its trademark paper-search, file-integrity problem and thus had little basis of comparison to determine whether automation would, in fact, improve data integrity and thus, registration quality. In this regard, PTO recently reported that 60 percent of the records in the automated data base contain at least one error. On March 12, 1985, PTO estimated that it would cost $655,832 to fully verify and correct these errors. The Assistant Commissioner for Trademarks stated that data base errors have prevented PTO's use of the automated system without manual search verification. The Assistant Commissioner for Trademarks stated that the data base contains too many errors for use without using manual verification. As of April 1985, the system still was not fully operational.

In addition, in its 1982 automation study, PTO planned to reduce a 19-month registration process by about 14 weeks through automation. Trademark Office officials told us, however, that instead of a 14-week savings, a maximum 2-week reduction in application time may be achieved through automation. PTO's Administrator for Automation stated that this particular estimate is based on time saved through (1) the use of machine-readable application forms and (2) a change to in-house printing of PTO's weekly publication of registered trademarks. However, the Assistant Commissioner for Trademarks and Trademark Office officials have stated that such accomplishments are not likely in the foreseeable future, if ever, and that the greatest time savings (a maximum of 2 weeks) would likely occur in the printing area. The Administrator for Automation stated that PTO has not conducted a pilot test to determine the potential savings of machine-readable trademark applications and has no specific plans to do so.

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[6] Discounting is a standard practice by which expected future cash flows are estimated and reduced to reflect the time value of money. The estimate involved converting 1982 dollars to future dollars using an average annual inflation rate of 5.1 percent and then discounting at 11.03 percent. The inflation rate was derived by estimating federal pay increases because savings were based on personnel savings. The discount rate was based on U.S. Department of Treasury (bill and note) borrowing rates at the time of the study.

We believe the costs and benefits have not been adequately assessed. We recognize that predicting automation impacts is difficult. Nevertheless, the range of estimates between PTO's 1982 automation study and the views of PTO's Trademark Office officials, along with the lack of documented analytical bases for the estimates, indicate that PTO should recompute the estimates and support them with documented, analytical evidence.

PROBLEMS EXPERIENCED WITH EXCHANGE AGREEMENTS

PTO's three exchange agreements with private companies to develop a trademark data base are non-monetary, barter-type agreements for the procurement of commercial ADP support services.[7] We found that (1) PTO did not accurately value all exchange provisions, (2) the development of the first exchange could have been improved, (3) PTO did not achieve maximum practical competition on the second and third agreements, and (4) PTO did not adequately consider all future impacts of the exchange agreements on PTO and the public. In addition, PTO has not established criteria for deciding what kinds of transactions are appropriate for exchanges. Furthermore, PTO does not consider exchanges to be procurements.

In January and May 1983, PTO signed exchange agreements with N.V. Compu-Mark S.A., Thomson and Thomson, and Trademark Computer Research Service, Inc., to develop computer tapes from PTO's trademark data for a machine-readable data base. PTO officials told us that exchange agreements were used as an appropriate exercise of its exchange authority primarily because funds were not available[8] to pay for the data base and because PTO considered the agreements an economical approach.

Under the exchanges, Compu-Mark "key-entered" onto a computer tape PTO's existing registered trademark text data, such as the words comprising the trademark; Computer Research agreed to key-enter PTO's future trademark application text data for the next 10 years; and Thomson agreed to digitize and code existing and future trademark image data.[9] Image data is a digital representation of the trademark itself; coding specifies the type of image. In return for these services[10] (valued by PTO and the companies at about $3 million), the companies received from PTO (1) copies of registered trademarks and application documents (from which exchange tapes were developed), (2) an agreement to provide future trademark data tapes with unlimited restrictions on their use, and (3) assurance that it would restrict the public's access to the trademark data base.[11] This value was based primarily on PTO's estimate of the cost of creating the data base by means of a monetary key-entry procurement and PTO's judgments on other items, such as the value of office space PTO was to provide. The exchange agreements also included provisions that fixed PTO's future data-tape sales prices. In addition, according to Automation Office officials, the agreements provide that each party will use its "best efforts" to carry out its responsibility under the agreements. The Administrator for Automation told us that this provision means that compliance with these contracts is based upon a "gentleman's agreement."

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[7] For additional details, see letter opinion, dated March 13, 1985, from the General Accounting Office's General Counsel to the Chairman, House Committee on Government Operations (B-217448). Also, the General Counsel of the General Services Administration agrees that the agreements are contracts for the procurement of commercial ADP support services. In an April 10, 1985, letter to the General Accounting Office, the Solicitor of PTO concluded that the exchange agreements are not procurements.

[8] In a February 13, 1984, letter to the United States Trademark Association, the then-Commissioner stated, "The overriding reason why the PTO chose the exchange-agreement method of acquiring the computerized trademark data base was because...the Office could not project sufficient resources in fees and appropriations to pay the $3 million to pay for the creation of the computerized trademark data base."

[9] On April 12, 1984, Thomsom acquired Computer Research. As a result, a new agreement, reached in June 1984, essentially consolidated the previous two agreements, leaving only two exchange partners, Thomson and Compu-Mark.

[10] Company and PTO officials explained that the trademark expertise of the exchange partners enhanced the source data entry services provided.

Originally, the agreements PTO signed with the three companies restricted public access to the resulting trademark computerized data. Even though PTO planned to obtain a more advanced search capability, PTO agreed to restrict public access to methods "comparable and equivalent" to those provided through PTO's manual search facility. In June 1984, after an outcry from the trademark industry over this arrangement, PTO decided to allow unrestricted public access to its search system for a fee. Part of the charge would be a royalty fee to be paid to the companies. In December 1984, after receiving additional public complaints about these arrangements, PTO announced its intention to procure the trademark data by sole-source procurements with Compu-Mark and Thomson which would, according to PTO officials, effectively "buy out" at least some of the restrictive exchange agreement provisions. As of April 12, 1985, these procurements were being negotiated, and the scope, terms, and impacts of the buy out had not yet been resolved.

Exchanges were not equal

PTO officials and the exchange agreements stated that items of equal value were exchanged. We found, however, that PTO initially placed no value on the agreements' provisions that restricted public access to PTO's automated search data base to "comparable and equivalent" access methods. Yet, through subsequent negotiations with the private companies, PTO and the private companies valued these provisions at $3.18 million. In essence, because these provisions only benefited the companies, they received about twice the value that they provided to PTO. (Industry officials questioned the value of other agreement provisions. Because no clearly valid estimate of value was available for such provisions, we concentrated on the valuation of the public restriction provision.)

In June 1984, after an outcry from the trademark industry regarding restricted access, PTO estimated that it could key-enter its own data base for $3.18 million and allow the public full use of its search system, according to the Assistant Commissioner for Finance and Planning. After PTO explained this to the companies, Compu-Mark and Thomson agreed that the public could be allowed to access the exchange agreement data with more advanced trademark search software at PTO headquarters. For this access, PTO agreed to collect royalty fees from the public totaling $6.04 million over 10 years with a present value of $3.18 million. (Current negotiations of the previously mentioned sole-source procurements may result in a different final value of the restricted access provisions.)

The Assistant Commissioner for Finance and Planning stated that the agreement valuations were based on values estimated by the receiving parties and that subsequent valuations of the restriction provisions should not be combined with the initial gross estimates of value. We disagree. We believe the subsequent valuations clearly demonstrate that PTO's initial valuations were incomplete and indicate that PTO provided greater benefits than it received.

The development of PTO's first exchange could have been improved

PTO's exchange agreements are contracts for the procurement of commercial ADP support services and are subject to the Brooks Act and the Federal Procurement Regulation.[12] The Brooks Act vests the General Services Administration with central authority for the acquisition and management of ADP equipment. The act has been interpreted to cover not only equipment but also related ADP resources, including ADP support services. The Federal Procurement Regulation requires that government procurements be made on a competitive basis to the maximum extent practical.[13] In this regard, PTO reported to the Congress in its December 1982 Automation Master Plan that "all acquisition actions will conform to federal procurement regulations to achieve maximum practical competition...."

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[11] Because the agreements include several ambiguous provisions and because PTO could not find complete copies of its original agreements, we supplemented our analysis of these documents with explanations from PTO and company officials.

PTO did not follow procurement procedures required by the Brooks Act and the Federal Procurement Regulation because it did not and does not consider the exchanges to be procurements. Consequently, none of the exchange agreements were developed with these procurement regulations in mind. Nevertheless, we reviewed PTO's actions to determine whether they substantially conformed to the regulatory requirements for the procurement of commercial ADP support services. Under requirements of the Federal Procurement Regulation, before procuring commercial ADP support services, a federal agency must determine whether these services are available within the government or under General Services Administration contractual arrangements. If the services are not available, the agency may procure such services without the approval of the General Services Administration. The regulation also requires that maximum practicable competition among offerors who can meet an agency's ADP needs must be obtained to ensure that those needs are satisfied at the lowest overall cost, considering price and other factors. When only one contractor can meet an agency's needs, the agency is required to document the basis and justification for sole-source selection.

We concentrated on the requirement for maximum practicable competition because it is of central importance in assuring that the government's needs are satisfied at the lowest overall cost.[14] Regarding the first exchange, we could not conclude that PTO obtained maximum practicable competition because of the conflicting information we received. However, we found that PTO's approach to the first exchange may not have been the most effective way to assure that the government obtained the best bargain.

Prior to the first exchange, PTO contacted several companies to discuss its overall ADP resource needs. During 1982, PTO did not publicly announce that it was interested in proposals for exchanges to acquire a computer data base of its current trademark records. However, when PTO publicly announced the exchange agreement with Compu-Mark in January 1983, it invited other companies to submit proposals for exchanges that were the same as or equivalent to the Compu-Mark arrangement. According to PTO, no companies responded to this initiative. Several company officials told us that, had they known that PTO wanted proposals for exchanges before the agreement with Compu-Mark had been consummated, they probably would have competed. We believe that, had PTO disseminated its needs and interest in entering into exchange agreements before signing the Compu-Mark agreement, it might have achieved more favorable terms on its first exchange.

During 1982 PTO relied on the knowledge of its executives and contacted, at different times, 12 companies that it considered interested and capable and discussed general trademark automation needs, such as software, hardware, and data bases. According to PTO's Administrator for Automation, as a result of these discussions, PTO agreed to an exchange with Compu-Mark in December 1982. Several weeks later, in January and February 1983, respectively, PTO announced in the Commerce Business Daily and the Official Gazette (an official PTO publication) the Compu-Mark agreement and its interest in entering into the same or equivalent agreements with other companies.[15] PTO officials told us that because no companies responded to these invitations, PTO's private negotiations in 1982 effectively included all appropriate companies.

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[12] See 41 Code of Federal Regulations Subpart 1-4.12, et seq.. This Subpart was in effect when the exchange agreements were signed in 1983. Effective Apr. 1, 1985, it was replaced by new provisions of the Federal Information Resources Management Regulation (FIRMR). Also, Subpart 1-4.12 incorporates by reference the other provisions of the Federal Procurement Regulation. The regulation was replaced by the Federal Acquisition Regulation, effective April 1984.

[13] 41 Code of Federal Regulations Sections 1-1.301-2 and 1-4.1206.

[14] Although the evidence did not establish whether PTO sought or could have obtained ADP support services through other federal agencies or under then-existing General Services Administration contracts, nothing in the nature of exchange agreements is inherently inconsistent with acquiring ADP support services in any of these ways.

Because PTO claimed that all interested and capable companies had been contacted in 1982, we contacted industry officials to verify that PTO's efforts had been effective. Officials from five companies--Datatrust, Computer Research, a third company that was contacted early in 1982 regarding a contract (but not an exchange), and two other companies that were not contacted in 1982 by PTO--told us they would have been interested in directly competing for PTO's first exchange agreement with Compu-Mark if they had been informed of PTO's needs and its interest in reaching an exchange agreement. The officials from companies that had been contacted in 1982 stated that PTO did not provide an opportunity to compete in 1982 because PTO did not advise them of the Compu-Mark agreement and its details. PTO officials stated that all companies had an opportunity in 1983 when PTO publicly invited equivalent proposals in its two early 1983 announcements of the Compu-Mark agreement.

We learned that three companies--Thomson, Computer Research, and Datatrust--which were in contact with PTO during 1982 (in addition to Compu-Mark) attempted to arrange exchange agreements from January 1983 to May 1983, after learning about the Compu-Mark agreement. No agreements comparable to the Compu-Mark exchange were reached although two of the companies--Thomson and Computer Research--subsequently entered into exchange agreements covering other kinds of data.

Regarding the Commerce Business Daily announcement, a representative of Datatrust provided the following sworn statement about 1983 negotiations with PTO.

> "[The PTO negotiating official] stated that PTO had an agreement with Compu-Mark for trademark text capture (key entry) and that PTO was seeking complementary proposals. [The PTO official] actively directed the discussion to consideration for a Datatrust proposal to code, classify, and capture trademark designs or images. I believe that the purpose and effect of his directing the discussion to this area was to restrict Datatrust to coding, classifying, and capturing trademark designs or images."

PTO officials explained that the only reason they may have needed a second company to duplicate the Compu-Mark agreement was to help validate the integrity of Compu-Mark produced data.

Datatrust officials told us that they also had discussed an image proposal with PTO but, in effect, were rejected in May 1983 when PTO announced that Thomson would be automating the image portion of the trademark data base.

Because Datatrust officials stated that their options for exchanges were effectively restricted, we contacted Thomson and Computer Research to determine how negotiations proceeded in early 1983. Officials from both companies stated that when they contacted PTO after the Compu-Mark agreement, PTO officials indicated that PTO had the text backfile agreement and that the companies should propose something else. In a sworn statement, the Computer Research official said that, "PTO effectively restricted the part of the trademark data base for which we could compete." He added that his firm was effectively limited to the future text data area, even though it was also interested in an image data base project. He explained that PTO's representative "indicated that PTO was interested in giving all interested parties a different 'piece of the pie'."

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[15] The February 1983 announcement stated, "The PTO would welcome proposals from other interested suppliers to provide the same or equivalent materials and services. Proposals received by Mar. 31, 1983, will be evaluated and considered by the Office."

In response to company officials' comments, PTO's Administrator for Automation also provided a sworn statement. He stated that:

> "Before discussing or negotiating proposals further, I was explicit in verbally asking an official representing each company if they had seen the announcement - if they were interested in obtaining an identical CM [Compu-Mark] agreement?...however, none of the four companies were interested in doing so. More general discussions were held with representatives of several other firms....In sum, no company was restricted from opportunities to provide any part of the trademark data base."

Because these discrepancies regarding verbal negotiations in 1983 could not be reconciled, we could not conclude whether PTO's public invitation to consider proposals that were the same as or equivalent to Compu-Mark's was genuine and was offered to assure that PTO would obtain services that were competitive with those being provided by Compu-Mark. We believe that, had PTO made its needs and interest in entering into exchange agreements better known before signing the Compu-Mark agreement, it might have achieved more favorable terms for the first exchange. The approach PTO followed may not have been, in our view, the most effective approach that could have been taken to obtain the best bargain for the government.

PTO did not achieve the required maximum practicable competition on its last two trademark exchanges

PTO's second and third exchange agreements are also contracts for commercial ADP support services, which are subject to the Brooks Act and the Federal Procurement Regulation. We believe that PTO did not obtain maximum practicable competition on these exchanges because of the following reasons.

--PTO did not publicly announce that it was seeking proposals for the kinds of data to be provided under the Computer Research and Thomson agreements. Although the January and February 1983 notices in the Commerce Business Daily and the Official Gazette, respectively, announcing the Compu-Mark agreement invited proposals from other interested firms for materials and services that were the same as or equivalent to Compu-Mark's offer, the Computer Research and Thomson offers were not the same or equivalent proposals. Compu-Mark would provide PTO with a computer data base of the text of all trademarks active at the time of its agreement. On the other hand, during a 10-year period, Computer Research and Thomson would, respectively, furnish PTO with (1) computer tapes of text information contained in future trademark applications and other trademark documents and (2) computer tapes of images of active trademark registrations and trademark applications which contain design elements as well as image coding.

--PTO had limited contacts with companies regarding the preparation of computer tapes of images or of future trademark applications and other documents. According to PTO officials, PTO's contacts were confined to a total of four companies for the image and future trademark application tasks."[16]

--The announcements of the Computer Research and Thomson agreements in the May 20, 1983, Commerce Business Daily did not invite proposals from other interested firms for materials and services which were the same as or equivalent to these two agreements. Rather, the announcements requested proposals only for exchanges of materials and services.[17]

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[16] PTO officials stated that they had other contacts with companies for ADP resources during January 1983 through May 1983 but added that PTO did not specifically discuss future text or image proposals.

[17] The May 20, 1983, Commerce Business Daily notice stated, "The PTO welcomes proposals from other suppliers for the exchange of materials and services."

These requests were consistent with PTO's policy regarding exchange agreements, which was published in the Federal Register on May 5, 1983. Under this policy PTO will consider a proposal for a particular kind of exchange and is not required to solicit competitive proposals. PTO's policy states that:

> "Due to resource limitations and the necessity for diversity in the program, only one offer will normally be accepted for a given PTO incentive. If substantially similar offers are received within any 45-day period, they will be evaluated and/or negotiated together. The offer which provides the best total consideration for the Government will be accepted."

Consequently, we believe that PTO did not obtain maximum practical competition on the second and third exchanges. Because PTO did not publicly announce requests for proposals and had limited contacts with companies regarding its proposals before it entered the Computer Research and Thomson agreements, PTO was unable to ensure that it would receive enough offers from firms that could meet its needs at the lowest overall cost, price and other factors considered. PTO also was not prepared to enter into other arrangements that were competitive with the Computer Research and Thomson agreements. Both its invitation for proposals in the Commerce Business Daily announcements of these agreements and its exchange agreement policy did not contemplate that there would be other agreements for the type of data bases Computer Research and Thomson would furnish.[18]

Impacts on PTO and the public not adequately considered

PTO's exchange agreement contracts have had, and may continue to have, significant impacts on PTO, the public, and the trademark industry that are unrelated to the primary purpose of the exchange--the acquisition of a trademark data base. Through provisions agreed to by PTO in the exchange contracts, PTO effectively (1) relinquished some control over the use of some of its ADP resources, (2) fixed the price it charged the public for automated data tapes at seven times the previous price, and (3) restricted its ability to use available and new information technologies to disseminate trademark data. In addition, PTO's administration of these agreements has been deficient because PTO did not carefully and thoroughly plan and implement the agreements.

One important agreement provision restricted the public's access to the resulting data base, thereby restricting PTO's control over some of its ADP resources. While each agreement used slightly different language, the provisions were substantially the same in stating that:

> "Terminals made available to members of the public for the purpose of using data elements derived from...[the agreements]...will be used only with search techniques comparable and equivalent to the present manual paper file searching in the PTO Trademark Search Library."

Company officials explained that this provision was important to them because the companies initially required assurances that PTO would not offer its advanced trademark search capability to the public. PTO's Administrator for Automation told us that, although PTO initially agreed to this restriction, PTO wanted to continue to provide the public with a search capability "comparable and equivalent" to the capability offered through manual searching. The public has always been allowed free access to PTO's manual search files.

In 1983, when PTO signed the agreements, with terms extending to 1993, it effectively agreed to restrict the public's use of its then planned search system. In 1984, after an outcry from the trademark industry regarding PTO's planned restrictions on public access, PTO decided to provide the public with full access to its automated search system. Nevertheless, because of the exchange agreements' public-use restrictions, PTO was required to renegotiate with the companies to obtain approval on the type and cost of public access to PTO's automated search system. Thus, because of the restrictions, PTO effectively had to seek permission from the companies before it could provide the public with the full range of capabilities of its $10 million search system.

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[18] We found no documentation which established the basis and justification for PTO's sole-source selection of Computer Research and Thomson as required by 41. C.F.R.S. 1-4.1206-5.

In June 1984, the initial restrictions were amended by PTO's agreement to collect a royalty fee for the companies from the public for the public's access to the trademark data using the more advanced capabilities of the PTO search system. Subsequently, the planned charges for unrestricted public access using a specific number of PTO terminals were publicly announced for comment. The charges consisted of a $40 per hour base fee for comparable and equivalent access and a $30 royalty fee for the companies because the companies allowed access using the more advanced capabilities. This proposed fee has not yet been finalized. To develop its access fee, PTO briefly analyzed the two key components of the fee--public search volume and PTO's trademark search costs. PTO used a 1-week survey of the public search room to estimate volume of usage and included in the search costs its overhead costs and some trademark search system costs, which may not be directly attributable to the public's access.

Other agreement provisions also resulted in significant current and possible future impacts on the public's access to PTO trademark data. These provisions require that PTO not sell, and exert its best efforts to prevent others from obtaining in a computer-readable form, the trademark application data, the historic trademark text data, and all image data obtained from the companies through the exchanges. The provisions also prevented electronic dial-up access from outside PTO, except from its affiliated Patent Depository Libraries located around the country.

In addition, PTO agreed to fix the price for a year of its "Official Gazette Trademarks" computer tapes to a figure that was seven times its previous price. Prior to the agreements, PTO had been making certain tapes available to the public through the Department of Commerce at a price of $6,150. Now, under the agreements, PTO must sell this data for a price that PTO officials describe as an estimated fair market value of $43,200.[19] Furthermore, only Compu-Mark and Thomson can sell the tapes for less. According to PTO officials, the $43,200 price effectively recovers PTO's total estimated costs of data entry. Thus, PTO can recover its total estimated key-entry costs in one sale. In addition, the Assistant Commissioner for Finance and Planning told us that PTO would recover all costs and make a profit on the first sale. One prospective purchaser was placed in the unenviable position of seeking this data from a competitor, Compu-Mark, after PTO quoted him the new price. According to the prospective purchaser, PTO suggested that he contact Compu-Mark if he wanted to obtain the data at a lower price.

Currently, PTO is negotiating to pay to have at least some of the restrictions in the agreements removed. If PTO had developed its data base under contract for a monetary fee, it would have retained sole control over the use and dissemination of its data.

In addition, PTO would have been free to use existing and new technologies, such as remote access to the search system through microcomputers, to disseminate trademark data.

Administrative problems

In reviewing PTO's trademark exchange agreements, we also noted several administrative deficiencies. First, PTO has yet to establish criteria defining when exchanges rather than monetary government procurement contracts should be used. The Assistant Commissioner for Finance and Planning said PTO uses exchange agreements when the planned exchange meets the intent and provisions of PTO's exchange agreement authority and when no money is involved. We question the effectiveness of such general guidelines. For example, under the present exchange agreements PTO ultimately plans to pay money for exchange items even though PTO initially intended to exchange only items and services. Furthermore, PTO's legislative authority does not effectively substitute for guidelines on when exchanges should be used because the legislative authority does not specify the circumstances under which exchanges are most appropriate. The authority states that the PTO Commissioner, "shall have the authority to carry on studies, programs, or exchanges of items or services regarding domestic and international patent and trademark law or the administration of the Patent and Trademark Office...."

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[19] A PTO official explained that purchasers paying the $43,200 price for the 1984 tape would also receive prior years' tapes and that subsequent tapes would cost $43,200 per year.

In addition, while PTO's exchange agreement policy of May 2, 1983, described exchange agreements and explained how PTO intended to administer its exchange authority, it did not specify what kinds of transactions are appropriate for exchanges. Furthermore, this policy was not publicly announced until May 5, 1983--3 months after its first exchange agreement was signed and only a few days before its second and third agreements were signed.

Second, at the time of the signing of its exchange agreements, PTO had not resolved basic contractual requirements, such as specifications for keying and the definition of "comparable and equivalent" public access. When PTO later specified the keying instructions, it had to agree to provide additional goods and services as payment to one agreement partner.

Third, the primary control feature in the agreements is a provision requiring best efforts by each party. We believe controlling these contracts through what PTO officials describe as a "gentleman's agreement" approach is risky because it does not specify obligations or establish incentives to assure quality and timely delivery of data or allow PTO the right to effective redress for unsatisfactory performance. For example, PTO could not ensure delivery (and actually did not initially schedule timely delivery) of critical image data for its acceptance test of its trademark search system that PTO accepted in June 1984. (The acceptance test is the subject of the next section.)

Finally, PTO could not locate for us a complete copy of two of its three original exchange agreements. Through more thorough, careful planning and management, these problems could have been avoided.

SEARCH SYSTEM ACCEPTED WITHOUT BEING FULLY TESTED

PTO's search system contract with the System Development Corporation stipulates that government acceptance of the system is "contingent upon the system passing all tests associated with the acceptance program." The image retrieval subsystem was an integral part of the search system.

We found that PTO excluded from the acceptance program any tests of the image retrieval subsystem because it knew that the necessary data base would not be available in time for the schedule delivery of the subsystem. PTO made an agreement with the contractor to test the image retrieval subsystem at a later date. Nevertheless, PTO chose to officially accept the entire search system based on a partial test. Furthermore, PTO stated in a June 21, 1984, letter to the contractor that "tests were conducted in accordance with the specifications of the RFP [request for proposals] and all requirements were satisfied. Based on the results of the acceptance testing, the PTO accepts the Trademark Search System."

In its first test, PTO compared the system to its (1) general workstation requirements, (2) search requirements, and (3) timeliness requirements. However, PTO did not test the system with an image data base until November 1984, 5 months after it had already accepted the total system. During the November test, PTO learned that the system did not meet a mandatory search timeliness requirement. PTO retested the system for timeliness in April 1985 and found that it met this requirement; however, another requirement was found to be deficient. Nevertheless, PTO accepted the system in June 1984, without assurance that it would meet the contract specifications.

PTO divided its acceptance test into two sections--text retrieval and image retrieval--because required image data from an exchange agreement company was scheduled by PTO for delivery during

June through August 1984, after the contractually scheduled system test in April 1984. Also, PTO accepted the system months before the image data was installed. The first test covering text retrieval began on May 16, 1984, and concluded when PTO accepted the total system on June 21, 1984. The second test for the image retrieval component began on November 28, 1984.

According to a private consultant who assisted PTO in its tests, PTO's first test of hardware, operating software, and text retrieval features was conducted on May 16, 1984, under the following "constrained" conditions:

--PTO tested only text searching.

--The text data base was incomplete and partially inaccurate.

--Only 18 of 61 search terminals were tested simultaneously.[20]

During testing, PTO identified several areas where the system did not satisfy, or only partially satisfied, functional requirements identified in the contract. Specifically, the system could not search across a range of trademark classes, nor could it search words that had three or more consecutive letters or numbers (such as AAA or 777). In addition, while the system met a 16-minute search timeliness requirement, the average completion time of 14.7 minutes was achieved only under the above constrained conditions. PTO officials told us that if images had been included during the first test, the system probably would not have passed. Also, the test team noted that as the number of terminals increased, response time slowed, a further indication that the constrained conditions assisted the system in passing the acceptance test.

Even though the trademark search system did not pass all requirements, PTO, in a June 21, 1984, letter stated that, "tests were conducted in accordance with the specifications of the RFP [request for proposals] and all requirements were satisfied. Based on the results of the acceptance testing, the PTO accepts the Trademark Search System." This acceptance letter did not state that only the text retrieval component was accepted or that certain functional requirements needed further correction. PTO contracting officials told us that the total system had been accepted, regardless of the outcome of the second acceptance test. PTO's Test Director explained that PTO accepted the full system because the shortcomings were minor and PTO assumed that they would be addressed later by the contractor. However, the Assistant Commissioner for Trademarks wrote an internal memorandum on June 22, 1984, that she concurred with acceptance of the text retrieval component, provided that the identified problems would be corrected and the image retrieval component tested before the full system was accepted.

On November 28, 1984, PTO began its second test. PTO tested the same requirements (except for the previously tested text retrieval features) and added the image retrieval feature. This test was also conducted under "constrained" conditions. Many of the design codes which are the basis for image searching were missing from the data base and no more than 40 of the 61 search terminals were simultaneously tested. During testing, several deficiencies were noted in the general workstation requirements test. For example, according to PTO's test team, the contractor did not provide easily understood, documented, "user friendly" instructions on system use--a problem that had been noted during the first test. In addition, according to the test team, while the required capability to search across a range of trademark classes worked, it was too slow for practical use.

The most disturbing result of the second test was the system's slow search time. The system averaged more than 20 minutes per search--over 4 minutes slower than the contractual requirement. Design mark searches were especially high, averaging over 27 minutes. The second test also documented that automated searching was slower than the manual approach since the 16-minute search time criterion was based on a PTO estimate of the average time required to perform manual searches.

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[20] Although 70 terminals are required by the contract, 9 terminals are planned for administrative use.

As a result of the second test, PTO directed the contractor to correct the deficiencies noted. According to a PTO Trademark Office official, the contractor corrected the functional requirements by February 28, 1985. PTO retested the system for timeliness in April 1985 and reported that it met this requirement. However, this same PTO official also told us that the system now would not accommodate 10 simultaneous image searches (a contract official concurred that the contract required that the system be able to accommodate a minimum of 24 simultaneous image searches), and that PTO was requesting further contractor corrections.

PTO's Assistant Commissioner for Finance and Planning stated that PTO could withhold funds if the contractor did not meet contract requirements, such as average search timeliness. However, a PTO contracting official told us that PTO could not withhold funds to ensure performance.

Regardless of which official is correct and whatever other recourse that may be available to PTO, these difficulties could have been avoided had PTO better managed its acceptance test program, particularly the test schedule associated with that program.

Senator MATHIAS. I am going to ask the remaining witnesses to appear as a panel: Donald W. Banner, president of the Intellectual Property Owners; Robert B. Benson of the American Patent Law Association; William A. Finkelstein of the United States Trademark Association, and Paul Zurkowski, president of Information Industry Association.

Gentlemen, as with the other witnesses, we will include your full statements as part of the record. I will ask you to keep your oral summary as brief as possible.

Mr. Banner, do you want to lead off?

STATEMENTS OF DONALD W. BANNER, PRESIDENT, INTELLECTUAL PROPERTY OWNERS, INC., WASHINGTON, DC; ROBERT B. BENSON, ESQ., PRESIDENT, AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION, ARLINGTON, VA; WILLIAM A. FINKELSTEIN, PRESIDENT, UNITED STATES TRADEMARK ASSOCIATION, NEW YORK, NY; AND PAUL ZURKOWSKI, PRESIDENT, INFORMATION INDUSTRY ASSOCIATION, WASHINGTON, DC

Mr. BANNER. Thank you, Mr. Chairman.

On behalf of IPO, we thank you for this opportunity and appreciate having our full statement included in the record.

Very briefly, we favor strongly the type of legislation reflected in House bill H.R. 2434. We think it will allow necessary improvements in the Patent and Trademark Office. We are in favor of automation. We think it ought to be done in a proper, careful, significant way. The automation program on the patent side, we should remember, is part of the three-legged stool to which I have referred often. In order to have proper examination, we have to have an accessible library, we have to have a trained, capable examiner to look at the library, and we have to give him adequate time to do his job. And if you do not have all three, you are not going to have an effective examination process. Automation is primarily in the first area, one leg of the three-legged stool, but let's not ignore the others, or the whole thing will fall apart.

As we understand the House bill, it should not have any significant effect on the amount of money available for the Office's automation program.

We also feel that applicants for patents and trademarks should not be paying for capital improvements like automation. The records of the Patent and Trademark Office are available for the full public in general, not just patent and trademark applicants.

We favor prohibiting the Office from entering into the kinds of exchange agreements we have been talking about this morning, which would restrict public access. We favor prohibiting the Office from charging for access to official Government records.

We strongly favor maintaining the authorized public funding at a level of $101 million. The so-called excess fees really bother us tremendously. They are not excess fees. The public paid those moneys with the understanding that that funding would be used to improve the quality of the Patent and Trademark Office. Rather than having that happen, what they are doing with the money, or what they are attempting to do with the money, is to use it to keep the old-fashioned, second-rate Patent Office in operation. We do not think that is right. We think that is a breach of faith.

We feel also that extending the Consumer Price Index limitation on all the fees of the Office is a very good idea. You mentioned this morning the fact that this Nation is in trouble. We are very concerned about that. We heartily agree with you. In 1983, six of the nine corporations that got the most U.S. patents were foreign-controlled. Ten years ago, there was one. In 1983, Nissan got almost as many U.S. patents as Ford and General Motors combined. We think that shows a serious problem. We think we should not be going backwards at this time. We face a situation in which the Patent and Trademark Office is cutting back on services, cutting back on quality, cutting back on activities which are essential to a first-rate office. Yet the Patent and Trademark Office comes before the Congress and says, "We do not need this extra money." We find that very, very strange.

Thank you, Mr. Chairman.

[Submissions for the record follow:]

PREPARED STATEMENT OF DONALD W. BANNER

ON BEHALF OF INTELLECTUAL PROPERTY OWNERS, INC.

SUMMARY

IPO strongly supports enactment of the bill passed by the House, H.R. 2434. An effective Patent and Trademark Office is essential if Americans are to be given the long term encouragement for innovation and investment needed to win the "economic war":

- o H.R. 2434 maintains authorized public funding for the Office for 1986 at the 1985 level of $101.6 million -- $16.9 million more than recommended by the Administration.
- o H.R. 2434 extends the consumer price index limitation on further user fee increases to cover all Patent and Trademark Office fees.
- o H.R. 2434 prohibits charging the public for access to official government records in the patent and trademark search libraries at the Office. Charging the public for access to these records is no different from charging the public for admission, for example, to the Library of Congress.
- o H.R. 2434 requires the use of public funds to pay the costs of automating the Patent and Trademark Office. This is in the interest of fairness and will enable Congressional review of expenditures for automation.
- o H.R. 2434 prohibits the use of exchange agreements relating to automatic data processing resources. This will prevent private companies from contracting for monopoly rights in public information and will make all expenditures for automation subject to the Congressional authorization and appropriations process.

* * *

I am appearing here today on behalf of Intellectual Property Owners, Inc. (IPO). We appreciate this opportunity to present IPO's views on S.866 and H.R. 2434, the bills to authorize appropriations for the Patent and Trademark Office, and on related matters concerning user fees and automation of the Patent and Trademark Office.

INTRODUCTION

Mr. Chairman, the year 1914, to many of us, brings to mind The Guns of August and images of the start of what was called "The Great War". But the year 1914 is also significant in the context of a different war - the economic war.

The year 1914 was the last year that the U.S. was a "net debtor nation". The last year, that is, until this year.

According to The Washington Post of June 18, 1985, this "net debtor nation" status is one "usually associated with developing countries". The article added that the U.S. has not had a surplus of trade in goods since 1975, and pointed out:

> The emergence of the (United States) as a net debtor was caused by the deterioration of the country's trade in manufactured goods - which has plummeted in the last five years....

The U.S. Court of Appeals for the Federal Circuit a few weeks ago said, "The reason for the patent system is to encourage innovation and its fruits: new jobs and industries, new consumer goods and trade benefits." The trademark system provides similar benefits too.

The patent and trademark systems, of course, can provide these benefits only if the Patent and Trademark Office functions properly. IPO believes a healthy Patent and Trademark Office can help give the long term encouragement for innovation and investment which America needs to win the economic war.

IPO is a nonprofit association whose members own patents, trademarks, and copyrights. Our members are responsible for a significant portion of the research and development conducted in the United States, and they pay a significant portion of the fees which are collected by the Patent and Trademark Office. IPO is interested in having the Office operate as effectively as possible, to provide maximum incentives for innovation and investment.

At the outset I want to stress that the Patent and Trademark Office has a dedicated and capable staff of employees who have worked diligently over the years to improve the Office's operations. We are grateful for their efforts. They have accomplished a great deal while often working with inadequate resources.

I also want to stress that IPO strongly supports automating the Office's operations. We believe automating the patent and trademark search files is one of the keys to improving the quality and reliability of the patents and trademark registrations issued by the Office.

BACKGROUND RE AUTHORIZATION BILLS AND 1986 BUDGET

S.866 is the bill introduced in the Senate at the request of the Administration to authorize appropriations for the Patent and Trademark Office for fiscal years 1986, 1987 and 1988. S.866 would give authority for appropriations of $84,739,000 for fiscal year 1986. This is a decrease of $16.9 million from the Office's 1985 appropriations of $101.6 million.

The total spending proposed for the Patent and Trademark Office by the Administration for 1986 -- appropriations plus user fees collected in 1986 and "excess" user fees accumulated during the past three years -- is $219.2 million. This is larger than the 1985 amount, ($210.4 million after adjustments for cost increases). However, if one deducts the increase in spending for automation programs, the budget for the rest of the Patent and Trademark Office -- the normal operation -- is being cut for 1986. And this cut is being made during a time of rapidly rising work loads.

Initially, a bill identical to S.866 was introduced in the House of Representatives at the Administration's request. After the hearing in the House, a different bill, H.R. 2434, was reported out of committee and was passed by the House on June 24, 1985. H.R. 2434 authorizes appropriations for 1986 at the 1985 level of $101.6 million. H.R. 2434 also places certain controls on Patent and Trademark Office user fees and automation expenditures. IPO strongly endorses H.R. 2434 and urges this subcommittee to approve all of the provisions in that bill.

Our conclusions about the Patent and Trademark Office budget are based primarily upon our analysis of the 83 page budget document which is dated January 1985 and entitled "1986 Budget Submission to the Congress". Page numbers in our statement refer to pages of that document, and references in our statement to the "budget" refer to that document.

One of our main sources of information about the views of IPO members is a survey which IPO conducted in the fall of 1983. The survey posed 31 questions about operations at the Patent and Trademark Office. The survey was mailed to patent owners throughout the United States. The questions covered general and specific matters concerning the Office's priorities, patent examining, other patent-related services, and appellate and legal affairs. One hundred forty-two companies and individuals responded to the survey. Most of the respondents were large and medium size corporations.

Our statement also relies on two studies of the Patent and Trademark Office that have been conducted by other organizations: (1) a 1984 report by the Congressional Office of Technology Assessment entitled "Patents and the Commercialization of New Technology"; and (2) an April 1985 report by the General Accounting Office entitled "Patent and Trademark Office Needs to Better Manage Automation of Its Trademark Operations".

In addition, we cite an interview of former Commissioner of Patents and Trademarks Gerald J. Mossinghoff published in the Patent, Trademark, and Copyright Journal of March 7, 1985.

BACKGROUND RE 1980 AND 1982 FEE LAWS

We believe the $16.9 million cut in public funding proposed by S.866 is inconsistent with what Congress intended when it enacted the 1980 and 1982 Patent and Trademark Office fee laws, public laws 96-517 and 97-247. Congress did not intend for the Office to let user fees go unspent and then reduce the request for appropriations by the amount of the "excess" fees.

It was envisioned that the revenue raised by higher fees would be used to make major improvements in the Office's operations, which for many years had been under-funded and tragically neglected. In 1982 Commissioner Mossinghoff testified that a principal purpose of the fee legislation was "to double the fee-recovery ratios... for patent and trademark processing in order to provide urgently needed resources to the PTO for Fiscal Year 1983 and subsequent years..."

The Administration is now proposing in S. 866 to use extra fee income paid by applicants during the last three years to reduce the level of appropriations rather than to meet the urgent needs of the Office. The appropriated funds are being reduced by using $16 million of "excess" fees that accumulated in the three years of operation under public law 97-247.

If all of the fee reserves accumulated over the last three years are used in 1986, it will be necessary in 1987 and 1988 either to increase the public support for the Office or to make drastic cuts in PTO programs, because there will not be another $16 million of fee reserves to draw on in 1987 and 1988. It is difficult for us to imagine the level of public support being substantially increased for 1987 and 1988 if it is reduced for 1986.

We urge your subcommittee to approve the funding level in section 1 of H.R. 2434.

TIMELINESS OF THE OFFICE'S WORK

The level of public support of $84.7 million for 1986 proposed in S.866 is not enough to ensure the reliability and timeliness of the operation of the Office. This is clear from the Administration's budget document itself.

To begin with, the budget's projections for the number of patent applications which will be filed are unrealistically low (p. 21). The budget predicts 107,000 applications will be filed in 1985 and 107,000 in 1986. The number of filings in 1984 was 109,539. According to Acting Commissioner Donald J. Quigg's address to the American Bar Association on July 8, 1985, filings in 1985 are running at the annualized rate of 116,000. The Patent and Trademark Office has stated that $1.5 million in extra funds is needed to examine every extra thousand patent applications filed. Substantial extra money is needed, therefore, just to handle the extra patent applications which are being filed.

In addition, the budget reveals that the delays in deciding appeals from decisions made by the Office's patent and trademark examiners, which already are at unacceptable levels, will increase sharply during 1986. In the case of patent processing, the budget states that one of the Office's objectives is to "provide prompt and efficient services to the public, including the adjudication of motions before PTO's Board of Patent Appeals and Interferences" (p. 20). The numbers in the budget show, however, that patent appeals awaiting a decision will increase to 7,700 at the end of 1986, up from about 5,900 at the end of 1984 (p. 21). That is a 30 percent increase.

In the case of trademark processing, the budget says an objective is to maintain the "achievements of 1984 and 1985", including "the reduced Trademark Trial and Appeal Board adjudication period of 12 weeks" (p. 32). The numbers show, however, that contested cases before the Trademark Trial and Appeal Board will rise from over 4,300 in 1984 to over 7,100 in 1986 (p. 33). That is a 64 percent increase.

The budget also reveals that a $697,000 cut is being made in the Office's administrative services as a part of what is called a 10 percent across the board "administrative cost savings" (p. 3). The "Administrative Services" item in the Office's budget includes maintaining official records for inspection by the public, performing the initial clerical screening of patent and trademark applications, operating the internal mail and messenger system, providing personnel services, and the like. These matters are not being done efficiently now; the funding should be increased not decreased. The 10 percent cut appears to be entirely arbitrary.

At the time of IPO's 1983 survey of patent owners, opinion on the level of administrative services provided by the Office was not good. Of those expressing an opinion about the Office's internal mail delivery system, virtually all said it was poor or fair. With regard to the Office's ability to locate application papers and other records, 34 percent said poor and 52 percent said fair.

It is true that some improvements have been made in administrative services recently. If the proposed cuts are made, however, it seems to us certain that we will be back to the traditional level of mediocrity in the Office's administrative services.

It appears to us that the Office has no flexibility to shift funds to administrative services from other areas. The Office had to reduce various programs by about $5.7 million dollars during 1985 in order to cover the cost of the pay raise received by government employees and other unbudgeted cost increases. The cuts included: significantly reducing for the rest of 1985 the use of commercially available databases by patent examiners for searching purposes; eliminating training for examiners; reducing programs for reclassifying the patent file by subject matter and checking file integrity; leaving unfilled the vacant positions at the

Board of Patent Appeals; and terminating summer employment programs for students. (Source: H. Rep. No. 99-104, p 3.)

Funding at the level provided in section 1 of H.R. 2434 will help the Office provide initial services which are essential and timely.

IMPROVED QUALITY OF PATENT EXAMINING

The Department of Commerce this year has reiterated its commitment to achieving the three major goals that it has announced for the Patent and Trademark Office. Acting Commissioner Quigg recently stated as follows:

> The Department is committed to continuing the effort to make the PTO a first-class operation in all respects, based on the following three-point program:
>
> o To reduce the average time it takes to get a patent to 18 months by FY 1987 (Plan 18/87).
>
> o To register trademarks in 13 months, with a first opinion on registrability given in three months (Plan 3/13).
>
> o To automate the Patent and Trademark Office by 1990.

Although we agree with these objectives of reducing "pendency" time and automating the Office, the item which we believe should be the Office's single highest priority is not even in the 3-point program. The highest priority should be to improve the quality of patent examining.

Examining does little good if the examiners fail to find the most relevant earlier technology when they conducts searches, or fail to evaluate patent applications carefully for compliance with the applicable laws and regulations.

I like to make an analogy with the support needed to hold up a three-legged stool. The three legs needed to hold up quality of patent examining are: 1) a complete and accessible search file of prior patents and technical literature; 2) a corps of capable and well trained examiners; and 3) adequate time for the examiner to examine each case. If any one of the three legs is too weak, the stool will collapse. The Patent and Trademark Office with its program for automating the patent search file by 1990 is strengthening only one leg -- and it will not be stronger for at least 5 more years. The other legs should not be ignored while tens of millions are being spent to strengthen one leg.

IPO's 1983 survey of patent owners elicited several opinions about the quality of patent examining and the Office's priorities. The survey asked patent owners to rank in priority seven possible improvements in PTO operations.

It was surprising to some people that the item ranked highest was to improve the quality of searches made by examiners in paper search files. Ranked second was to improve quality of examination apart from searches. Automating search files placed third. Shortening the average pendency time of patent applications to 18 months was rated a lowly sixth out of seven.

The respondents also expressed a number of other opinions about patent examining.

They were asked, "What degree of confidence do you have that patents issued to you by the PTO are valid?" Sixty-eight percent said "moderate". Only 17 percent said "strong".

They were asked, "Would it be cost effective for the PTO to change the amount of time and money it spends examining the average patent application?" Forty-six percent said more time and money should be spent. Only one percent said less time and money should be spent.

The reliability of issued patents, of course, cannot be measured with mathematical precision. The Congress has taken several important steps in recent years to improve the reliability of patents and the public confidence in patents. The improvements have been substantial. For example, the 1982 legislation giving exclusive jurisdiction of patent cases at the appellate level to the U.S. Court of Appeals for the Federal Circuit seems to be improving the uniformity and certainty of patent law. The legislation enacted in 1984 to improve various provisions of the patent code was a major accomplishment. The 1980 legislation which established a system for reexamining patents in the Patent and Trademark Office has been very useful.

Nevertheless, the fact that a large number of patent owners in the fall of 1983 had only "moderate" confidence in the patents issued by the Patent and Trademark Office is cause for serious concern. We doubt that the level of confidence by patent owners has changed significantly since that time. If the companies and inventors in America who are inventing and investing in new technology do not have confidence that patents issued by the Office are reliable, the patent system cannot do its job effectively.

The Administration's budget for 1986 is doing nothing to improve the quality of patent examining except for the long term project for automating the search files by 1990. In fact, the 1986 budget actually decreases the time available to patent examiners to examine applications. The budget proposes to cut 140 positions from patent processing. The explanation in the budget is as follows:

> This staffing reduction is possible due to increased examiner productivity, which has emerged in the past 12 months as a result of both the enhanced awards program and unexpectedly high productivity from new examiners (p. 23).

This says to us that from now on the examiners are going to be spending fewer hours examining each application. Certainly it is a good management practice to give cash awards to employees for superior work. The Office for many years has given cash awards to examiners, and recently has expanded its awards program. But the awards are given almost exclusively for quantity of production. Awards for superior quality of work are virtually non-existent.

The 1984 study by the Office of Technology Assessment reported, "...an increasing percentage of examiners are meeting or exceeding their production goals.... The practical effect of production goals is to increase the importance of the time factor in the examiner's work." According to the OTA study, 81.4 patent applications were issued or abandoned per patent examiner in 1960; in 1981 that figure was 101.8.

The OTA report went on to say, "The system inherently awards shortcuts. ...The importance of production goals in the relations between the union and the management of the Office has tended to entrench the production goal system in the operation of the Office."

There is some evidence that over time it may have become easier to get a patent from the Patent and Trademark Office. In 1929 the Office apparently was issuing patents on approximately 50 percent of the applications which were filed. In the period from 1955 to 1964 the percentage issued was around 62 percent. In more recent years it has been around 67 percent. If the time spent on each application is reduced, will the percentage issued increase further?

The budget counts on "increased examiner productivity", but we are skeptical of whether the Office has discovered any new ways for examiners to do their work significantly faster or smarter. Under a system in which examiners are constantly rewarded financially for quantity and are never rewarded for quality, quantity will continue to increase. There is almost no limit to how fast examiners can issue patents if enough shortcuts are taken. An examiner can complete the paperwork to issue a patent in 5 minutes.

The budget also reveals that the Office is cutting back on the amount of funds spent for periodicals and pamphlets used in examining. The budget says, "...periodicals and pamphlets are essential in the patent and trademark examination process." The budget reveals, however, that the Office has cut back by over one third the amount spent for periodicals this year and proposes a similar level of expenditures for 1986 (p. 83).

In the interview published by the Bureau of National Affairs, former Commissioner Mossinghoff said, "One of the real scandals of the Patent Office... is that 7 percent of our references that the examiners must look through are either missing or misfiled." We agree.

The paper search file cannot be allowed to deteriorate even further, as it would under S. 866, on the assumption that it will not be needed much longer. The paper search file cannot be scrapped instantly when the automated system is completed. Even if it could be, the Office will issue thousands of invalid patents in the next five years if the paper search file is allowed to deteriorate further.

We believe the subject matter classification system for the manual paper search file is seriously in need of attention. This problem has existed for years. The cutback this year in programs for reclassifying the patent search file by subject matter and checking file integrity is merely the most recent evidence of inattention.

The massive paper search file contains some 25,000,000 documents - a larger number of documents than the number of books in the Library of

Congress. They are broken down by subject matter by an intricate classification system of over 100,000 classes and subclasses.

If the classification system is not continually updated to keep pace with changing technology, the search file becomes unusable. When the automated system is available, the patent subject matter classification will still be needed. Reclassification is a task to which extra effort must be devoted, not decrease efforts as proposed in S. 866.

For all of these reasons, we urge that the funding for the PTO staff should not be cut back. If the objective is to create a first class Office, it makes no sense to reduce the size of the patent examining corps the very next year after an expansion program to increase the size of the examining corps has been completed.

Funding at the level authorized by section 1 of H.R. 2434 will help provide the resources needed for quality patent examining.

FEE INCREASES LIMITED BY CONSUMER PRICE INDEX

The increases in fees made by Public Laws 96-517 and 97-247 in 1980 and 1982 were very substantial. Fee collections have risen from $28.5 million in 1982 to an estimated $118.5 million in 1986. In accordance with the legislation already enacted, fee collections will continue to increase substantially until the mid-1990's as the fees for maintaining patents in force gradually become payable on larger numbers of patents.

In public law 97-247 Congress provided that further increases in most of the fees for processing patent applications and in the fees for maintaining patents in force can be made only once every three years and the increases can be no larger than the amounts needed to reflect fluctuations occurring during the previous three years in the consumer price index (CPI). Under existing law this CPI limitation does not apply to trademark fees or to fees for miscellaneous items or services.

In the Federal Register of June 21, 1985, the Patent and Trademark Office announced proposed levels for patent and miscellaneous fees for the next three years. The increase being proposed by the Office for most patent application processing fees and for patent maintenance fees is 11.7 percent, the amount of the increase in the CPI over the past three years.

The fees which are not subject to the CPI limitation, however, are being increased on the average by much more than 11.7 percent. The rationale for the large increases in some of these fees is not apparent. Some of the fees are being raised to levels that appear to be substantially above the actual costs of providing the services. For example, the Office is proposing to charge $100.00 for Certificates of admission to the patent bar suitable for framing. The U.S. Supreme Court and the Court of Appeals for the Federal Circuit charge $10.00 for their certificates. Certain fees for taking action or filing papers in the Patent and Trademark Office later than the normal deadline are being increased by very large amounts.

IPO believes continuing large increases in Patent and Trademark Office fees will deter businesses and inventors from using the Patent and Trademark Office, thereby weakening the incentives patent and trademark systems are suppose to provide for innovation and investment. In the 1980 and 1982 fee laws Congress recognized that fee increases may be particularly burdensome to independent inventors and small businesses. A provision was placed in the law, which would be continued by H.R. 2434 and S. 866, to provide a 50 percent reduction in some of the fees for independent inventors and small businesses. We support continuation of this 50 percent reduction.

There are those, of course, who say that the entire cost of operating every function of the Office should be supported by user fees. We think an appropriate analogy is the Federal Courts. Should the entire cost of operating the Federal Courts to decide civil cases be supported by fees charged to the litigants?

We believe reasonable controls are needed over the size of future increases in all Patent and Trademark Office fees. Section 3 of H.R. 2434 would extend the CPI limitation of existing law for the next three years to cover all fees of the Patent and Trademark Office. We support this provision. It will help ensure that PTO fees do not become more burdensome to the users of the system, and it will provide an incentive for the Patent and Trademark Office to be efficient and to control the costs of providing its services.

PUBLIC ACCESS TO THE OFFICE'S LIBRARIES: POLICY

IPO is strongly in favor of automating the Office's patent and trademark search files. We believe that by adapting modern computer technology the Office can greatly improve the usefulness and reliability of the search files.

Unfortunately the Office is taking automation of the search files as an excuse to charge the public for access to information in the patent and trademark search libraries that has been available to the public free of charge since the beginning of the federal patent system in 1790 and the federal trademark system in 1870.

The budget states that the new automated trademark search library will be totally supported by special user fees (p. 41). The Office has proposed fees of at least $40 per hour. The budget also calls for eliminating the trademark paper search file beginning October, 1985 for a savings of $322,000, although since the time the budget was put together the Office has decided that problems encountered with the automated system have made it impossible to eliminate the paper search file any time soon. The budget gives no indication of where the funds will come from to support the paper trademark search file after October, 1985.

We are equally concerned about a notice published in the Federal Register on June 14, 1984, in which the Office announced a proposed policy of charging the public for access to U.S. patent records in the patent search library, after the patent records become automated a few years from now. We are not aware of any plans to charge for access to the paper patent search files in the meantime.

We are opposed to charging for access to public records in the patent and trademark search libraries at the Office. It is a traditional policy of government agencies to make official records available for inspection by the public at the agency's offices free of charge. Having patent and trademark records available to the public benefits the public at large. The Copyright Office, the agency with records most similar to those at the Patent and Trademark Office, does not charge for access to its automated system.

The legislative history of the Lanham Act shows that one of the main purposes of the federal trademark law is to protect the consuming public from confusion. A large number of searches that are conducted in the search room result in marks not being adopted, because a conflict is found to exist with marks already registered. The general public benefits from having businesses not adopt marks which later will cause confusion of consumers. By making it easier to check for conflicts when adopting new marks, the Lanham Act facilitates investment in new products which bear new marks.

For many years the Lanham Act has put everyone on notice of the existence of federally registered marks by operation of law. In addition, the Trademark Counterfeiting Act of 1984 now imposes criminal liability for counterfeiting of registered marks. By charging to inspect trademark records, we would be charging citizens for the privilege of inspecting records of trademarks they are expected to know about, and records which could govern whether they might be subject to fine or imprisonment.

It is not correct that the search room is used mainly by individuals who spend nearly full time conducting trademark searches. A survey conducted by the Patent and Trademark Office in 1983 showed that 48 percent of the users of the trademark search room were called "infrequent users" -- that is, individuals who used the search room fewer than three times a week. The infrequent users of the search room include searchers who have never before conducted a search. These include small businesses who conduct their own investigations in the search room instead of hiring an attorney or professional searcher to conduct the search for them.

The patent search room in Crystal City contains one of the world's largest collections of technical literature. It is a great teaching library. It is used by hundreds of members of the public each day, for many kinds of searches. Even though the automated patent system for which charges are planned is still some years away, we hope the idea of charging the public for access to patent records can be put to rest now. Is the Federal government going to begin charging admission to all of its libraries?

It confuses the issue to argue that a charge should be made for access to the libraries at the Office because some day it will become feasible to have information about Office records available on line at locations outside the Washington area. As we understand it, it will be years before the Office could be in a position to consider making its records available at remote locations. The issue today is whether there should be a charge for public records at the Office. Members of the public searching at the Office are searching on behalf of employers or clients located throughout the country.

At this time when America's economic and technological leadership is being challenged, it is the wrong time to begin taxing the users of federal libraries which disseminate information useful to innovators and investors. Section 4 of H.R. 2434 prohibits the Office from charging the public to inspect records in the public patent and trademark search libraries. Section 4 requires the costs of the search libraries to be borne by public funds. We urge the subcommittee to approve section 4 of H.R. 2434.

PUBLIC ACCESS TO THE OFFICE'S LIBRARIES: LEGISLATIVE HISTORY

IPO believes that charging fees for access to patent and trademark records is contrary to the intent of Congress as expressed in the legislative history of public laws 96-517 and 97-247, enacted in 1980 and 1982 respectively.

The 1980 and 1982 laws increased patent and trademark fees substantially and gave the Commissioner of Patents and Trademarks added discretion to institute and increase certain fees through rulemaking. We believe, however, that Congress intended that the entire cost of the search room should be supported by general taxpayer revenues and that no fees would be charged to support the cost of the search room. The House Judiciary Committee report on the 1980 law stated:

> The Committee...supports the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the PTO by the payment of fees. However, the committee has made certain amendments to the formula which empowers the Commissioner to set these fees. Certain costs of operating the PTO confer no direct benefit on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law. For example, the cost of executive direction and administration of the office, including the Office of the Commissioner and certain agency offices

> involved with public information, legislation, international affairs and technology assessment. Maintaining a public search room confers a general public benefit, as does the maintenance of the patent files in depository libraries. The contribution to the World Intellectual Property Organization relative to the Patent Cooperation Treaty is a treaty obligation. These costs should be paid for entirely from appropriated funds. (Emphasis added.)

The text of the 1980 law referred to trademark fees for "filing and processing of an application" and trademark fees "for all other services or materials relating to trademarks." In the case of patents, the 1980 law referred to fees "for the processing of an application for a patent" and "for providing all other services and materials relating to patents." The legislative history made clear that the PTO costs that were to be supported by general taxpayer revenues--including search room costs--did not fall under either application "processing" or "other services."

The Congressional policy of supporting the search room entirely through appropriations was carried over into the 1982 law as well. While the legislative history of the 1982 law contains only brief mention of the search room, the 1982 law was an amendment within the statutory framework established by the 1980 law. Thus, the 1982 law continued to refer to fees for application "processing" and for "all other services."

During testimony in 1982, the Commissioner of Patents and Trademarks referred to "the amount of the Office which is nonrecoverable, my salary, the public search room and so on..."

On the House floor, the bill was described as an amended version of an Administration recommendation "that user fees recover 100 percent of the cost of actual processing of patents and trademarks." It was said that the amendment which granted to the Commissioner authority to raise trademark fees to a higher level than had been called for in the 1980 law gave "discretion to establish the levels of fees for processing of trademarks."

Since "processing" was defined in the 1980 law as not including search room costs, and the 1982 law continued the same terminology, the 1982 law did not broaden the Commissioner's discretion to permit charging of fees for the search room.

For purposes of interpreting the law it should not matter whether the records in the search room are in paper form or in automated form -- the policy issues are the same. What is at issue is whether the Office is obliged to make trademark records -- and later patent records -- available to the public without charge. We believe the record shows that when Congress raised the user fees in 1980 and 1982, it decided that the public as a whole receives benefits from having a search room, and therefore appropriated funds for operating the search room were warranted.

AUTOMATION-RELATED ISSUES

We also support sections 5 and 6 of H.R. 2434, which impose controls over expenditures relating to automatic data processing resources.

Section 5 provides that for the next three years user fees cannot be used for procuring automatic data processing equipment or services. The legislative history of the 1980 and 1982 fee laws indicates that major capital outlays for improvements such as automation were to paid for through public funds. It is inequitable to charge current patent and trademark applicants for capital improvements like major expenses of modernizing the Patent and Trademark Office. The modernization will benefit the public at large and future patent and trademark applicants as well as those who happen to be applying for patents and trademarks at the time the modernization is occurring. During the next three years nearly all of the Office's expenditures for automatic data processing resources will be capital investment and start-up costs.

Another reason for using public funds for automatic data processing resources is to permit Congressional control over the nature and magnitude of the Office's automation expenditures. The annual appropriations act does not limit spending of user fee income in the same way it limits public funds. Large automation projects, especially those in the Federal government, are notorious for cost overruns. We believe a project on the scale of the Patent and Trademark Office automation program, which will involve expenditures of over $45 million in 1986, should be subject to the Congressional authorization and appropriations processes. The Patent and Trademark Office should to return to Congress for approval of further funding when cost overruns necessitate spending beyond initial plans.

Section 5 of H.R. 2434 should not have any significant effect on the amount of money available for the Patent and Trademark Office's automation program for the next three years. If H.R. 2434 passes, the items that would be earmarked for support through public funding rather than user fees -- namely, automation programs; one-half of the cost of patent application processing for independent inventors and small businesses; the Patent and Trademark Office search libraries; and, certain administrative and overhead costs -- would amount to a total of about $70 million in the 1986 budget. The Office's budget contains more than enough public funds to cover all of the items, including automation programs, that would be earmarked by law for support by public funding.

We suggest that the Patent and Trademark Office should revise the format of its budget to show specifically which programs are supported by public funds, which are supported by user fee income, and which are supported by a combination of public funding and user fee income. In Appendix A attached to this statement we have set forth an illustration of how we believe the items in the Office's budget could be grouped into public funding and user fee categories, consistent with H.R. 2434.

The Administration's budget is drawn up on the assumption that trademark automation and the trademark search library would be supported entirely by user fees. Since a relatively small amount of money is needed for these items, we assume that if H.R. 2434 is enacted, funding for them could be obtained through supplemental appropriations or reprogramming if necessary.

Finally, we support section 6 of H.R. 2434, which provides that the Patent and Trademark Office may not for the next three years use exchange agreements to obtain items or services relating to automatic data processing resources. This section is a response to the April 1985 Report by the General Accounting Office entitled "Patent and Trademark Office Needs to Better Manage Automation of its Trademark Operations." GAO found that in attempting to automate its trademark operations, the Patent and Trademark Office did not (1) thoroughly analyze user needs, (2) adequately assess the cost-effectiveness of its systems, (3) properly manage three exchange agreement contracts, and (4) fully test one of its systems before accepting it from the contractor. GAO reported that although the Patent and Trademark Office has addressed several of these problems, it still needs to do more.

While IPO does not have the expertise to comment on all of the matters raised by the GAO report, we do oppose the policy of the Patent and Trademark Office entering exchange agreements in which the Office and private companies agree to restrict access by the public to Patent and Trademark Office records. Such agreements amount to giving private companies monopoly rights in over the dissemination of public information. It is unwise for the government to enter such contracts, whether or not competitive bidding is used.

Another problem with exchange agreements with private companies is that they are not subject to the Congressional authorization and appropriations process. They are "off budget" expenditures by the Patent and Trademark Office which are not subject to normal review. When government programs involve major expenditures and difficult questions of public policy, such exchange agreements are not an appropriate vehicle for funding them.

While we have the impression that the Patent and Trademark Office could have avoided some of the recent controversy over its automation programs through a more careful and deliberate approach to planning and execution, it should be recognized that the Office is attempting one of the most complex automation programs in the Federal government and is confronting many issues for which no precedent exists. The Patent and Trademark Office is not the only Federal agency to encounter difficulty with automation recently. On June 14, 1985 the House Committee on Energy and Commerce issued a report expressing a number of concerns about a automation program at the Securities and Exchange Commission.

That Committee's report set forth nine principles that the Committee believed need to be followed in procuring, developing, implementing and operating an electronic filing system in the Federal government. While not all of those principles are applicable to the Patent and Trademark Office, we believe they give important guidance. The principles are as follows:

> (1) well-developed technical specifications and ample time for receiving competitive bids and evaluating them;

(2) full compliance with all laws and contract procedures;
(3) complete testing of all developmental programs so that only proven programs are included in the actual operating system;
(4) independent and competent evaluation of the system before it is put into operation;
(5) establishing all policies affecting technology and use before the system is designed and implemented;
(6) assuring full public participation in policy-making and access to the system;
(7) prohibiting audit and other firms who have conflicts of interest from receiving contract awards;
(8) preventing any private contractor from having an unfair advantage over competitors who file, use or resell the information, or from appearing to have an improper special relationship with the Commission; and
(9) funding the system only as specifically authorized by law.

(H. Rep. No. 99-155, p. 10.)

CONCLUSION

We believe very strongly that more funds than called for in the 1986 budget are needed if the Office truly is to become a first-class operation which provides maximum incentives for innovation and investment by American industry. Appendix B summarizes needs of the Office discussed in our statement.

Maintaining public support for the Office at least at the current $101.6 million level is fully justifiable. The $16.9 million difference between the proposed 1986 budget and the current level of appropriations for the Office may seem to be insignificant, but $16.9 million can make the difference between a first rate and a second rate Office. As a member of the House put it when H.R. 2434 was passed, "We made a promise to the American inventor 3 years ago, and if we make these cuts we would be going back on our promise after the American inventor has kept his end of the deal".

We also believe the controls in H.R. 2434 on user fees and automation programs are needed. User fees should not be increased further except to adjust for inflation in accordance with the consumer price index.

Charging fees for public access to the patent and trademark libraries is no different from changing fees for public access to the Library of Congress. Public funds should pay for automation as a matter of fairness and to enable closer Congressional review. The problems created by the Office's exchange agreements can be avoided if all automation expenses are paid for by appropriations.

APPENDIX A

ILLUSTRATION OF PTO FEE RECOVERY POLICY -- BASED ON FISCAL YEAR 1986 BUDGET AND H.R. 2434

I. Supported 100 percent by appropriated funds:	
Commissioner	$ 479
Legislation and International Affairs	1,014
Management Planning	2,169
Administrative Services	6,147
Automation[1]	45,558
Portions of Customer Services relating to patent and trademark search rooms	2,700
One-half patent application processing costs for individuals, nonprofit organizations and small businesses	14,500
SUBTOTAL FOR I.	$ 72,567
II. Supported 100 percent by user fees:	
Trademark Process, Including: Examination of Trademarks; Trial and Appeal Board; and Trademark Printing[2]	11,692
Customer Services except patent and trademark search rooms	7,926
SUBTOTAL FOR II.	$ 19,618
III. Supported partly by appropriated funds and partly by user fees:	
Patent Process, Including: Professional and Clerical Examination; Appeals; Interferences; and Patent Printing[3,4]	104,156
Quality Review	1,037
Solicitor	1,433
Publication Services	3,767
Data and Document Retrieval Systems[5]	16,658
SUSTOTAL FOR III.	$127,051
TOTAL IN 1986 BUDGET	219,236
ADDITIONAL APPROPRIATIONS AUTHORIZED BY H.R. 2434	16,892
TOTAL	$236,128

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[1] Includes both automation expenses in "automation" line item of budget and automation expenses which the budget spreads to other line items.

[2] Automation expenses have been subtracted.

[3] Automation expenses have been subtracted.

[4] $14,500,000 for reduced fees for "small entities," included in category I, is deducted from category III.

[5] Automation expenses have been subtracted.

APPENDIX B

NEEDS OF THE PATENT AND TRADEMARK OFFICE WHICH CAN BE ADDRESSED BY RESTORING THE $16.9 MILLION IN APPROPRIATED FUNDS WHICH THE ADMINISTRATION PROPOSES TO CUT FROM THE 1986 BUDGET

- Funding for the public trademark search library, for which the budget contains no funds whatsoever for maintaining the paper files. The trademark search library has been, and still is, required by law to be funded by appropriated funds. This is confirmed by H.R. 2434. The cost of the trademark library, for providing the public with access to both manual and automated records, is around $1.5 million, according to the 1986 budget.

- Funding for continuing work on automating the trademark search files, which, according to the 1986 budget, is $1.184 million. H.R. 2434 also requires patent automation projects to be supported by appropriated funds, but enough appropriated funds are present in the budget to cover patent automation projects.

- Funding to handle a higher number of patent applications than the estimate of 107,000 per year in the Administration's 1986 budget. The Administration's 1986 estimate is unrealistic. In 1984 application filings were 109,539 and the filings in 1985 are running at the rate of 116,000.

- Funding to restore various basic services that would be cut by the Administration's budget, including periodicals and pamphlets for examiners and various internal administrative services.

- Funding to remedy serious, long-standing problems with missing and misfiled documents in the massive patent search files, and to correct other problems affecting the reliability of issued patents.

- Funding to eliminate the burgeoning backlog of undecided cases at the Board of Patent Appeals and Interferences.

REPLIES BY INTELLECTUAL PROPERTY OWNERS, INC.
TO QUESTIONS FROM SENATOR MATHIAS
DATED AUGUST 14, 1985

1. In past legislative actions, Congress has authorized user fees in some instances. Do any other countries with advanced patent and trademark systems charge the equivalent of user fees? If so, how do their fees compare with U.S. fees?

Answer: All or nearly all other countries with advanced patent and trademark systems charge user fees. A compilation of fees in other countries prepared by the U.S. Patent and Trademark Office in 1982 showed European countries were charging fees as high as, or higher than, those in the United States, while Japan's patent fees were lower than U.S. patent fees. See, e.g., Hearings Before the Subcommittee on Courts, Civil Liberties and the Administration of Justice of the Committee on the Judiciary, House of Representatives, 97th Cong., 2d sess., on H.R. 5602, at pages 25 to 27.

2. Why do you think that the Patent and Trademark Office's use of user fees violates Congressional intent as expressed in P.L. 96-517 and P.L. 97-247?

Answer: The Office has violated Congressional intent as expressed in Public Laws 96-517 and 97-247 because:

> 1) Congress intended that the extra fee income generated by those laws would be used to improve the operations of the Office; instead, the Office has allowed user fee income to go unspent over the past three years and is now using the unspent fees as an excuse to reduce the level of appropriated funds;
>
> 2) The legislative history shows that the Patent and Trademark Office public search rooms were intended to be funded by appropriated funds; instead, the Office is proposing to fund the trademark search room from user fees in 1986 and to fund the patent search room from user fees eventually.
>
> 3) The legislative history indicates that major capital outlays for improvements such as automation were to be paid for with appropriated funds; instead the Office is planning to fund major portions of its automation projects from user fees.

IPO's written statement submitted at the hearing July 23 contains references to the legislative history on these three points.

3. As a flip side to this question, why is it preferable to use taxpayer money for automation?

Answer: Taxpayer money is warranted because automating the search files will confer a long term benefit on the general public by improving the reliability of patent and trademark protection and thereby strengthening the incentives for innovation and investment by U.S. businesses and investors.

Moreover, it is inequitable to charge current patent and trademark applicants for major capital outlays for projects such as automation, because automation will benefit future applicants too. Still another reason for using public funds for automation is to permit Congressional control over the nature and magnitude of the Office's automation expenditures. The annual appropriations act does not limit spending of user fee income in the same way it limits public funds. A project as large as the Patent and Trademark Office automation program, which will involve expenditures of over $45 million in 1986, should be subject to the Congressional authorization and appropriations processes.

4. If the appropriations for the Patent and Trademark Office continue to decline and the restrictions on user fees in H.R. 2434 are enacted, we will face a dilemma. Will the PTO have to stop the automation project? If user fees were the only way to salvage automation, would you accept them?

Answer: It is our understanding that if appropriations for the next three years are at the levels envisioned by the Administration, there will be adequate appropriations in the Office's budget to cover nearly everything earmarked by H.R. 2434 to be paid for by appropriations. Although, as explained in our testimony, we believe the Administration's recommendation of $84.7 million of appropriations for 1986 is inadequate to meet all of the Office's needs, the Administration's 1986 recommendation appears to be adequate to cover most automation expenses. See answer to question 8 below for further discussion on this point. The higher amounts of appropriations authorized by H.R. 2434 for 1987 and 1988 are based on the Administration's estimates. See the House committee report at page 5.

If user fees were the only way to salvage automation, many users might at least want to slow down the pace of automation projects.

5. If the $16 million is put back into the Patent and Trademark budget would you favor using some of this money for trademarks?

Answer: Yes.

6. It has been said that charging fees for the automated search room or the increasing fees for trademarks and patents will discourage innovation by discouraging registration. Do you have any evidence of this? How do you or how would you measure this?

Answer: Strong evidence exists that the quadrupling of PTO user fees in 1982 has had an adverse effect on innovation in this country. In 1983, the percentage of U.S. patents awarded to independent U.S. inventors dropped from 15 percent to 13 percent. In 1984 it stayed at 13 percent. Before the rise in fees, the percentage had dropped only one point in 12 years.

We believe this data on independent inventors is much more reliable than other data which the PTO has cited in an attempt to show that filings by "small entities", including small businesses and universities as well as independent inventors, did not decline after 1982. The PTO did not maintain any records of overall filings by small entities before 1983, so their figures on small entity filings before 1983 are merely estimates. The data on independent inventors which we cite in the preceding paragraph has collected by the Patent and Trademark Office on a regular basis for many years.

Management expert Peter F. Drucker, in his new book entitled Innovation and Entrepreneurship, states as follows at page 132:

> ...the recent trend in developed countries, and especially in the United States, to discourage the individual who tries to come up with a bright-idea innovation (by raising patent fees, for instance) and generally to discourage patents as "anti-competitive" is short-sighted and deleterious.

We believe unduly high fees are already discouraging innovation. Fees for the automated search room will heighten the effect. Fees for the automated search room will have an especially great effect on small businesses and independent inventors, since those groups are the ones least likely to have alternative sources of information about the state of the art in particular fields of invention, usage of trademarks by competitors, etc. Many members of the public other than those filing patent and trademark applications use the search rooms, so fees for the search rooms will affect a broader group of persons than fees now charged by the Patent and Trademark Office.

A survey conducted by the Patent and Trademark Office in 1983 showed that 48 percent of the users of the trademark search room were called "infrequent users" -- that is, individuals who used the search room fewer than three times a week. The infrequent users of the search room include searchers who have never before conducted a search. The patent search room in Crystal City contains one of the world's largest collections of technical literature. It is a great teaching library. It is used by hundreds of members of the public each day, for many kinds of searches. Users include, for example, inventors who are studying the existing technology in their fields, and competitors of patent owners who are assessing whether they may legally manufacture an invention.

7. In his testimony Mr. Quigg indicated that it is appropriate to charge user fees where benefits go to a specific group of individuals at a cost to the government. Could you please indicate what PTO functions you think it is appropriate to charge user fees for and which ones it is not and why?

To what extent should the PTO provide no-fee information services -- by type of service, by amount per user, and by geographic extent? Do you make any distinction between documents and enhanced database services?

Answer: Mr. Quigg's statement that it is appropriate to charge user fees where benefits go to a specific individual at a cost to the government requires interpretation. If taken literally, the statement would require the government to charge user fees to welfare recipients. It would also, for example, require dramatic changes in the current user fee policies of the Federal courts and the Library of Congress.

IPO believes user fee policies must be established on a case by case basis, taking into account the nature of the benefit received by individuals, the degree of benefit accruing to the public at large, and the impact of charging user fees.

Appendix A to IPO's statement filed with the Subcommittee on July 23 lists those PTO functions for which we believe user fees are appropriate and those for which we believe user fees are inappropriate. Our statement lists the PTO functions in terms of line items of the 1986 budget. Paragraphs (a) to (e) below give our reasons why the budget line items enclosed in quotation marks at the beginning of each paragraph should be supported by user fees or appropriations:

(a) "Commissioner; Legislation and International Affairs; Management Planning; and Administrative Services" -- should be paid for by appropriated funds because they are general overhead items required for operating the Patent and Trademark Office for the general benefit of the public at large.

(b) "Automation, and portions of Customer Services relating to patent and trademark search room" -- should be supported by appropriated funds because they represent long-term capital investments benefitting the public at large or because they are library-like functions benefitting numerous other members of the public in addition to persons filing patent and trademark applications.

(c) "One half patent application processing costs for individuals, non-profit organizations and small businesses" -- should be supported by appropriated funds because, consistent with the decision of Congress in enacting public law 97-247, lower fees were believed to be especially important for these specified classes of patent applicants.

(d) "Trademark Process, and Customer Services except patent and trademark search rooms" -- should be supported by user fees, assuming the fees are at reasonable levels.

(e) "Patent Process, Quality Review, Solicitor, Publication Services, and Date and Document Retrieval Systems" -- pursuant to public law 97-247, should be supported by an increasingly larger proportion of user fees as patent maintenance fees gradually produce more fee income from now until the 1990's.

No user fees charged by the Patent and Trademark Office, of course, should be raised to levels which would thwart the purpose of the patent and trademark systems -- to provide incentives for innovation and investment and to protect consumers from deception.

In response to the second part of the question, the government records in the patent and trademark search rooms at the PTO should be available to the public without any fee. Making these search rooms available to the public free of charge is a part of the traditional government function of making official government records available to the public.

We believe it is unwise and unworkable to attempt to impose fees only for members of the public who search more than a specified number of hours per year. It is unwise because it discriminates against the innovators who are doing the most innovation. It seems to us unworkable because it would require setting up a large recordkeeping bureaucracy to keep track of the number of hours of search time used by members of the public.

It is not true that the PTO search rooms are primarily for the benefit of attorneys and searchers located in the Washington, DC area. These attorneys and searchers are employed by businesses, universities and independent inventors located throughout the United States.

Information made available at the Patent and Trademark Office free of charge would not necessarily need to be made available free of charge at other geographic locations -- for example, as an on-line service accessible in the offices of private attorneys and searchers throughout the country. However, this is not an issue raised by H.R. 2434. As we understand it, the PTO will not even have the technical capability to provide information at geographic locations other than at the PTO's offices in Arlington, Virginia during the FY 1986 to 1988 period.

We disagree with attempting to make a distinction between "documents" and "enhanced database services" for purposes of deciding whether fees should be charged. It should make no difference whether Patent and Trademark Office records are in paper or electronic form.

If they are official government records, they should be available for inspection in the agency's offices free of charge. We also believe it is completely unworkable to attempt to distinguish between "enhanced" and "unenhanced" information in electronic form. If the information concerns official government records, and is being provided by the government, it should be available free of charge at the Patent and Trademark Office.

Perhaps highly specialized "enhancements" of patent and trademark information in many cases should be developed and marketed by private companies rather than by the Patent and Trademark Office. However, this is not a user fee question. This goes to how elaborate a system should be funded and operated by the Patent and Trademark Office.

8. How is it that the House bill will not have any significant effect on the Office's automation program? If the restrictions on fees are enacted but the additional money is not appropriated, do you foresee any negative effect on automation?

Answer: Section 5 of H.R. 2434, which prohibits spending user fees for automation, can be interpreted so that it would have no effect on the Office's patent automation program. We believe it is a reasonable interpretation of the bill passed by the House that any appropriated funds in the PTO budget not required by law to be used for other purposes can be used for patent automation and the patent search room. As illustrated by Appendix A of our written statement of July 23, the items in the Office's 1986 budget that are earmarked by H.R. 2434 to be supported 100 percent by appropriated funds total only $72.6 million. This includes the $45.6 million for automation. Although we strongly support appropriations of $101.6 million for the Office for FY 1986, even the Administration's lower recommendation of $84.7 million is more than enough to cover the costs of patent automation and the patent search room.

Under this interpretation the Office would still have to find some appropriated money to cover trademark automation and the trademark search room, because the 1986 budget was drawn up on the assumption that those functions would be supported entirely by trademark user fees. If the PTO drew on appropriations in its budget to pay for trademark automation and the trademark search room, it would have to cut some other program in its budget. This is true because 35 U.S.C. 42 prohibits using trademark user fee income for anything except trademark programs. Thus, the PTO lacks authority to use trademark fee income to cover the cost of whatever program outside trademarks that appropriated money might be taken from to pay for trademark automation and the trademark search room. Since trademark automation and the trademark search room represent a relatively small amount of money, however, we assume funding for them could be obtained through supplemental appropriations or reprogramming if necessary.

To summarize, if the restrictions on fees are enacted but the additional $16.9 million is not appropriated, under the interpretation we suggest the negative effect on automation would be no more than the amount of money represented by trademark automation and the trademark search room, which is relatively small compared to patent automation and the patent search room.

9. Some maintain that imposing fees for automated searches keeps the PTO from competing with commercial search firms that provide similar services to the public for a fee. Please comment on this. If fees are not charged for the automated searches, do you see the PTO becoming the dominant source of machine-readable trademark and patent information services in the U.S.? If so, how do you see innovation and improvement arising for the patent and trademark information services?

Answer: The Patent and Trademark Office should not compete with commercial search firms in providing services to the public which can best be provided by private firms. But this is not a question of fees. If a service can best be provided by private firms, the PTO should not enter the area at all.

The Patent and Trademark Office always has been the keeper of the official records of U.S. patents and trademark registrations. This is a basic governmental function which cannot be turned over to private companies. It would be unthinkable for members of the public to have to rely on a private company as the ultimate authority on what information is contained in official government records of patents and trademark registrations.

If one accepted that the Patent and Trademark Office's automated system will be competing with private search firms, it would follow that the Patent and Trademark Office has been competing with the private sector for nearly 200 years in operating search libraries containing paper documents. Operating the search rooms is a governmental function which cannot be taken over by the private sector.

We do not see the PTO becoming the dominant source of machine readable trademark and patent information services in the U.S. The private companies which are already providing machine readable trademark information to the public apparently are thriving businesses. They provide many kinds of services in addition to those that would be available from the PTO automated trademark system. For example, they provide searches of state and common law trademarks.

The Patent and Trademark Office automation systems are likely to stimulate innovation and improvement in specialized patent and trademark information services provided by private companies. We expect that in the long run the private companies will develop software for searching Federal marks for specialized purposes that will be superior to the Patent and Trademark Office's system. The Patent and Trademark Office eventually could be one of the best customers for specialized services from private companies. But it is a proper function of the Patent and Trademark Office to maintain and make available to the public the basic information in official records of U.S. patents and trademark registrations, whether the records are in paper or electronic form.

Senator **Mathias**. Thank you, Mr. Banner.

Mr. Benson?

STATEMENT OF ROBERT B. BENSON

Mr. **Benson**. Thank you.

One of the advantages of being late on the panel is that you have the opportunity to say, "Me, too," and I certainly will endorse Congressman Moorhead's statements and that of my friend, Mr. Banner.

Our organization, as you know, also includes a lot of trademark attorneys. I have read the statement of USTA, and I would like to say that we endorse that, too.

It is rather interesting that all three of the user organizations represented here today fully endorse H.R. 2434.

I would like to go back in history just a little bit. In 1978–79, President Carter commissioned a Cabinet-level study of industrial innovation in the United States. There was a Patent subcommittee on that commission composed of patent attorneys, businessmen, inventors, teachers, and research directors. The Patent subcommittee came up with three primary recommendations. The first was to improve the quality of the U.S. Patent and Trademark Office and make it a first-class operation.

The other two primary recommendations were reexamination of patents and a new court of appeals for the Federal circuit that would have exclusive jurisdiction over patent cases. Both of these other recommendations have been fully implemented and are working well. We are concerned about the program to upgrade the quality of the Patent and Trademark Office.

When the bills for increasing Patent and Trademark fees were introduced in 1980, they were premised on a basis that the increased funds would be used to improve the quality of the Patent and Trademark Office, specifically, that it would cure recognized problems—the search files were incomplete and copies were missing; there were delays in the prosecution of cases, delays in the court of appeals. The concept was that the additional fees would help to improve those conditions.

You will remember that these proposed fees were not favorably received by the majority of the users of the Patent and Trademark system. Many people opposed them. As a result, Congress put limitations on how these fees were to be used. For example, only 50 percent of the cost of prosecuting a patent application could come from processing fees, and the balance was to come from maintenance fees when they became effective.

Maintenance fees were introduced in the U.S. patent system for the very first time over the objection of a lot of individuals and patent bar associations; and so there was and continues to be a great deal of concern about how these user fees are to be used, and it disturbs us to see a huge surplus of user fees collected and that money not used to upgrade and improve the quality of our Patent and Trademark Office.

We are also concerned about the use of user fees to purchase the equipment for automation. We thoroughly support the automation program. In fact, I, and some of the other people from the various bar associations, meet periodically with the Commissioner to provide him with input from the Patent bar to avoid the mistakes that were made in automating the trademark system.

We fully support automation of the patent and trademark system. But we do not support—and I totally disagree with the statement Mr. Quigg made earlier—that user fees should be used for the purpose of purchasing the equipment for the automation program. After all, the Office is putting into the data base 100 or 200 years of records, and why should the present users be required to finance that transformation.

Mr. Quigg also pointed out that one of the results of this bill would be to delay the automation program. I find that is not all bad. In the few years that we have been working with the Patent and Trademark Office on this program, we have provided them with significant input from the users of the system who want to see to it that when the program is finished, the user as well as the Patent Office's needs are attended to.

For example, we conducted a survey throughout the United States of the potential users, and the specific question was, Do you want to be able to access these files from your own office in San Antonio, or wherever. And it came back almost universally that that was what the users wanted.

At that point the Patent Office had not taken this feature into account in its planning. So, delaying the automation program and making sure that it is going to be right for both the Patent Office and the user is an important factor, and we would prefer to see it delayed than be premature and inadequate.

Thank you, Mr. Chairman.

[Statement and responses to written questions of Senator Mathias follow:]

PREPARED STATEMENT OF ROBERT B. BENSON

ON BEHALF OF AMERICAN INTELLECTUAL PROPTERTY LAW ASSOCIATION

SUMMARY

— The AIPLA is concerned that the PTO is not complying with restrictions in the law regarding the fixing of user fee levels and spending income from fees. This failure forces users to pay higher fees than the law allows. We believe that even authorized fee levels are excessive.

The General Accounting Office issued a report that is highly critical of the management of PTO automation programs. The report also pointed out that the PTO ignored applicable procurement laws and regulations in acquiring data bases for that program.

The House of Representatives unanimously passed a reauthorization bill (H.R. 2434) which contains provisions designed to establish more meaningful controls on PTO financial and automation program operations. The AIPLA strongly supports H.R. 2434 and urges the Subcommittee to pass this bill.

— The AIPLA is concerned that the PTO goal of issuing patents 18 months on average after filing is being pursued to to the detriment of programs to improve the quality of issued patents. The PTO budget has more than doubled in the last five years. Yet, with the exception of the long range automation programs, we see the emphasis only on quotas and production goals.

AIPLA urges the Subcommittee to endorse the proposition that the quality of its work and product should be the overriding goal of the PTO. Specific programs which go towards enhancing quality are detailed in our statement. We urge the Subcommittee to direct the PTO to increase resources and support for these programs.

* * *

We appreciate the opportunity to offer the Subcommittee our opinion of the performance of the Patent and Trademark Office (PTO) since last authorized in 1982, and, on the course we understand the PTO intends to follow in the future.

We have two serious concerns. The first is the extent to which PTO is not complying with existing law in fixing user fee levels and spending fee income. The second is whether the goals which are currently being pursued by the PTO are goals which will, in fact, benefit and improve the patent system. While these two issues are interrelated, we will discuss them separately.

Collection and Use of Fees

The Congress, amended the law regarding user fees and increased those fees in 1980 in P.L. 96-517 and again in 1982 in P.L. 97-247. We supported the first increase. We opposed the second because we believed, and continue to believe, that the second increase was excessive.

Although the authorized fee levels are high, Congress did not give the PTO financial carte blanche and in fact the opposite is true. In the statutes and in House Report 96-1307 Part I and House Reprot 97-542, which accompanied the bills which were enacted as P.L. 96-517 and P.L. 97-247, specific guidelines and restraints on fixing fee amounts and spending fee income were established. Circumscribing the authority of the Commissioner in this way was a prudent decision. However, it is now clear that the PTO has not fully complied with the law regarding fees.

In 1979, a bill was introduced on behalf of the Administration to increase fees charged by the Patent and Trademark Office (PTO). The bill, H.R. 6933, proposed, inter alia, to amend 35 U.S.C. 41 to provide that 60% of the cost of processing patent applications be recovered in fees; 30% in filing, processing, and issue fees, and 30% in maintenance fees. H.R. 6933, proposed to amend 15 U.S.C. 1113 to provide that the "full costs" of the trademark operation would be recovered in fees. H.R. 6933 also provided that all fee levels could be adjusted each year.

On July 1, 1980, a subcommittee of the House Judiciary Committee marked up H.R. 6933. Several amendments to the bill were offered by Congressman Railsback with the full support of AIPLA. First, the 60% and 30% recovery percentages were reduced to 50% and 25%. Second, the word "actual" was added to several sections of the bill to modify the word "processing." Mr. Railsback said that this was to insure that the recovery percentages would be applied only to actual costs of processing patent applications and not the "entire operating budget." Third, the trademark processing fees were limited to 50% of the cost of processing trademark applications. Fourth, the bill was amended so that processing fees for patents and trademarks could only be adjusted once every three years.

H.R. 6933 was passed by the Congress and enacted into law as P.L. 96-517. All of the Railsback amendments were included in that law. The statute placed the following restrictions on setting fee levels:

(1) Patent processing fees may be fixed to recover 50% of the actual cost of processing patent applications, 25% in processing fees and 25% in maintenance fees.

(2) Fees for customer services and requested materials may be fixed to recover the estimated average cost of performing the service or furnishing the material.

(3) Actual trademark processing costs as well as services and materials may be recovered up to 50% by trademark fees.

The statute as explained in House Report 96-1307 Part I, placed the following restrictions on the use of income from fees:

(1) Fee income, like appropriated funds, will continue to be subject to "budgeted control" in that all expenditures must be approved by "appropriations acts."

(2) Fee income may not be used to fund the operation of a public search room or the cost of providing materials to the patent depository libraries.

(3) Fee income may not be used to fund the Office of the Commissioner, and other offices relating to administration, public information, management planning, or legislation and international affairs.

(4) Fee income may not be used to aquire or replace equipment where such cost "involves substantial capital outlays."

In February 1982, Commerce Secretary Baldrige transmitted to Congress a proposed bill which, inter alia, amended the law regarding fees. The Secretary explained what the Administration wanted as follows:

> Specifically, the enclosed bill would amend 35 U.S.C. 41 and 15 U.S.C. 1113 to achieve 100 percent cost recovery for patent and trademark application processing. In patents, 50 percent of the cost of processing would be recovered by filing and issue fees and 50 percent through maintenance fees paid at three intervals during the seventeen-year life of a patent.

The proposed bill was introduced as H.R. 5602 and S. 2211. Commissioner Mossinghoff testified to Judiciary and Appropriations Committee Subcommittees that regarding fees these bills would "double the fee recovery ratios contained in P.L. 96-517 for patent and trademark processing."

The proposed fee increase was opposed by AIPLA and all other organizations which expressed an opinion. Senator Weicker, the Chairman of the Small Business Committee, responded to the criticism by introducing S. 2326, which tracked the Administration bill but contained two restrictions on the fee proposal. The first restriction was that small businesses, non profit orgzniations, and independent inventors would pay 50% of the fees charged to all others pursuant to Sections 41(a) and 41(b). The second restriction was to specify fee levels in those sections and then limit the increase to those specific fees to a one time cumulative consumer price index increase in October 1985. The specific fees Senator Weicker used in S. 2326 were made public by the PTO in November of 1981 to demonstrate the actual effect of doubling the recovery ratios. In a letter to Senator Thurmond in April 1982, Commerce Department General Counsel Sherman Unger in effect accepted Senator Weicker's proposal. Subsequently, the bill which passed and was enacted as P.L. 97-247 doubled the fee recovery levels as the Administration requested,subject to Senator Weicker's limitations.

No other changes in law regarding fees were requested or publicly discussed in 1982 and none were made. Yet, the PTO

Budget submission for fiscal year 1986 reveals ongoing spending practices which are specifically not authorized by law. Also, a proposed rulemaking in June 1985 indicates the PTO does not intend to follow the law in fixing patent fee levels.

1. The PTO has maintained public patent and trademark search libraries since the last century. There has never been a cost required for the use of either library. These libraries contain public records assembled at public expense to which the public needs access. The patent and trademark laws cannot operate without these facilities. Indeed, many government agencies have library facilities for the public. We know of none which require fees for use. H.Rept. 1307 Part I, says, "maintaining the public search room confers a general public benefit...[and the] costs should be paid entirely from appropriated funds." In spite of this, the FY 1986 PTO Budget Submission says on page 41, "The Automated Trademark Public Search Room will be totally supported by special user fees." In fact the trademark search library has been supported by fee income and not appropriated funds for the past three fiscal years.

2. In 1980 when the fee "system" was established, Congress recognized that a major automation effort must be undertaken to modernize PTO operations. Section 9 of P.L. 96-517 directed that planning for it be undertaken. Congress also recognized that the enormous cost of making large capital expenditures for these computer systems should not be borne by those who happen to apply for patents or trademark registrations during the years when the PTO was making fundamental system changes. H.Rept. 1307-Part I says that such costs are "excluded" from "processing" costs for the purposes of user fees and that "the acquisition or replacement of equipment where such acquisition or replacement involves substantial capital outlays...would be paid from the Patent and Trademark Office's appropriation."

While the FY 1986 Budget Submission makes no reference to the restrictions on capital outlays, frequent examples of such acquisitions are noted. On page 51 for example, the Subcommittee will see that for the trademark operation a "search computer was installed in March, 1984, [and] work stations were connected in June." Also, "a computer assisted retrieval system [T-Car] was purchased and installed in November, 1983" The Office acquired both the hardware and the data bases for the automated trademark search system during FY 1984 and FY 1985. We understand the hardware cost more than $2.5 million. The trademark data bases were acquired pursuant to "barter" agreements which were intended to save money but did not. We now understand the PTO is considering paying $1.1 million to the parties to the barter agreements to modify some of their terms. We understand that $750,000 must be spent to improve the quality of one of the data bases before it can be relied upon. For another example, on page 36, you will see that the word processing system of the TTAB will be replaced at a cost of $49,000 in FY 1986. All of the aforementioned acquisitions involve substantial capital outlays for equipment, which should have been made with appropriated funds. We understand that nearly $16 million in fee revenues have been spent for automatic data processing equipment in the past three years.

3. Earlier this year, the PTO furnished the list of increased patent and trademark fees to a House Judiciary Committee Subcommittee which were to be imposed effective October 1985. In June of 1985, the PTO formally proposed in a rulemaking the increases to the patent fees. No increases in trademark fees were proposed.

Section 41(f) authorizes the Commissioner to increase fees imposed by Sections 41(a) and 41(b) to reflect fluctuations in the Consumer Price Index for the previous three years. The CPI increase for the past three years according to the PTO was 11.7%.

Of the twenty-five fees proposed to be increased, eighteen are in excess of the 11.7% authorized by the statute, whereas seven are within authorized limits. According to the rule-making notices, the proposed new fees were "rounded" for the "convenience of users." It is our understanding this practice of rounding up will increase patent fees by more than $1 million per year over applying the CPI increase exactly.

Section 41(d) authorizes the Commissioner to set fees for miscellaneous patent processing services or for requested materials at the estimated average cost of providing the service or the materials. Without exception, each of the proposed new fees is set at a level which exceeds the 1985 cost of providing the material or service. In many cases, the current fee is higher than the law allows and has been for the past three years. In some cases the PTO proposes to increase the excessive fee further and in some retain them at current levels. In the other cases, the current fee is less than cost and the proposed increases substantially exceeds cost.

The fact that the PTO is not adhering to the law on the specifics of fee setting leads us to be concerned that the PTO is not observing the law limiting processing fee income to 50% of the cost of processing patent applications in a given year. We would urge this Subcommittee to obtain from the PTO an explanation of how estimated patent processing fee income relates to the cost of processing patent applications in FY 1986-1988 so that this can be determined.

These spending and fee setting practices gave rise to several amendments to the introduced reauthorization bill, H.R. 1628, in the House Judiciary Committee. A clean bill, with the amendments, H.R. 2434, passed the House unanimously last month. We support H.R. 2434 and urge this Subcommittee to support it. The amendments which address the search room costs and the acquisitions of automated data processing equipment and services are basically restatements of existing law. The amendment limiting the discretion of the Commissioner to set patent fees pursuant to Section 41(d) and trademark fees are clearly indicated although Congressional oversight may also be required to insure that the limitations are followed.

H.R. 2434 also authorizes an additional $16 million to the requested appropriated amount for FY 1986. The $16 million represents the amount of "excess" patent fees collected over the past three years. The Administration intends to use these fees to reduce the public support for the PTO in FY 1986 rather than honoring the commitment made in 1982 to use increased fee income to improve PTO performance. In this fiscal year, the PTO is cutting back on several critical programs which go to increasing patent quality because of a $5 million shortfall, even though this $16 million in fees is in the PTO appropriation account.

We urge this Subcommittee to repudiate the practice of setting fees at levels which will generate more income than the planning programs need. We are willing to pay fees at levels authorized by law. We are also willing to pay fees to support PTO programs. However, we believe it is inequitable to plan to collect "excess" fees so that these funds can be used to reduce the next years appropriation request. This was done over the past three fiscal years. While there may have been difficulties in 1982 in making estimates of fee levels and use of certain services which gave rise to the $16 million excess, there is no excuse for future years.

Patent and Trademark Office Goals

Without any question,the most important element of PTO performance is the quality of its product. Issued patents must be valid. Issued patents which are not valid are worthless. Patentees who invest in commercialization with the mistaken belief that they own patent rights in an invention can be financially damaged. The harm to their competitive position will often be compounded by the expense of litigating the patent in question. The same considerations apply to registered marks.

For the past three years, the Office has pursued three goals. Two are the production targets of 18 months patent pendency by 1987, and 3 months to first action on trademark applications and 13 months to issuance by 1985. We support these two goals. However, the "18/87" goal is clearly far less important than allocating resources to improve the quality of patent examination. Of course, we obviously do not support backing away from this goal for the expedient of further reducing appropriations to support the Office.

The third office goal is automation. This does go to improving the quality of patent examination. However, this is a long range project which will be extremely difficult to fully achieve. Before it is achieved, hundreds of thousands of patents will issue.

Former Commissioner Mossinghoff said in 1982,and said again several months ago in the BNA Journal,that the fact that 7% of the references are missing from the patent search file is a "scandal." We agree. We believe that sufficient resources must be made available to eliminate the problem, the scandal of which is that the deficiency in this critical tool makes patent searches less reliable. The Office cannot ignore this matter by deciding that some day in the future this will go away with automation. We believe the Office has made no increased efforts in the past three years to improve this situation, and intends none in the future.

We are extremely disappointed to see that the Administration has returned to the "boom and bust" policy of the mid 1970's regarding examiner manpower. Apparently, once again the 18 months pendency goal overrides considerations of patent quality. From FY 1972 through FY 1978 patent pendency time decreased until finally reaching 18.9 months in FY 1978. Beginnning in FY 1975, examiner manpower was reduced from 1,270 positions in FY 1974 to somewhere in the 900's in FY 1978. Of course, in FY 1979 pendency began to increase. The decision makers of the 1970's were clearly interested in production rates only.

A number of decisions regarding examiner manpower can be made which will directly improve the quality of patent examination. More examiners can be detailed to the critical task of reclassifying the search file. Time off from production quotas can be allocated to examiner training and education. More examiner time per case can be allowed. There are other things involving examiner manpower which can be done to improve quality. For example, the backlog at the Board of Appeals is now running at very high levels and the FY 1986 Budget Submission indicates it will get worse. This situation cries out for increased examiner resources. A commitment to improving quality did not exist in the 1970's. The Budget Submission appears to be more of the same with a reduction of 101 examiner positions to achieve "deceleration" as the 18 month goal is approached.

Quality rather than speed should also be the overriding factor in the automation effort. The Office announced in 1982 that the automated trademark search library would be fully operational for examiners and the public in September, 1984. The automated patent search system is currently scheduled to be fully operational in 1990. We appreciate the usefulness of planning through target dates. However, the important consideration must be that whenever these systems are completed they must be totally reliable. Decisions made along the planning and implementation path which compromise quality for the sake of making a target date are not only counterproductive but expensive.

We believe that decisions of this type were made in connection with the automated trademark system. As this Subcommittee knows, a report by the General Accounting Office details a series of perceived management failures in connection with this program. The Office did not comply with required federal procurement procedures in acquiring the data bases. The specifications for the data bases were drawn up and used without determining what were the private sector user needs from the system. The management failures will contribute significantly to increasing the final cost of the system. Whether the September, 1984 target date was realistic or not is now a moot point. The system is not operational and no new target date has been announced. The bar through the National Coordinating Council will continue to try and offer support to the Office in implementing the trademark automation. The bar has established a broad-based ad hoc committee to work with the Office to attempt to insure that problems like this will not occur with the automated patent system.

Users now pay to the Office nearly $100 million per year and that will continue to increase. As you can imagine, we are surprised and disappointed to learn that $16 million of fees collected in excess of FY 83-85 estimates would not be used to improve the Office, but rather to reduce public support. This is directly contrary to our understanding of the Administration's position on the use of fees articulated in successfully supporting the extremely high fees which were imposed in 1982 by P.L. 97-247. We heard, and believed, that the Administration was committed to creating a "first class" Office. With the important exception of the automation project, which we fully support in principle, we see only a commitment to production units and quotas. To have a "first class" Patent Office, quality must be the fundamental and overriding goal.

This completes our statement. I will be happy to answer any questions the Subcommittee may have.

RESPONSES OF ROBERT B. BENSON TO WRITTEN QUESTIONS OF SENATOR MATHIAS

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August 28, 1985

The Honorable Charles McC. Mathias, Jr.
United States Senate
Committee on the Judiciary
Washington, D.C. 20510

Dear Senator Mathias:

Set out below are answers to your specific questions in your letter of August 14, 1985.

1. In past legislative actions, Congress has authorized user fees in some instances. Do any other countries with advanced patent and trademark systems charge the equivalent of user fees? If so, how do their fees compare with U.S. fees?

> Other countries do charge fees that could be classified as user fees. Normally these fees are related to the expense of prosecuting patent applications and maintenance fees to keep the patent in force during the term of the patent. Prior to the institution of the maintenance fees in the U.S., fees in foreign countries were generally higher than fees in the U.S.

2. Why do you think that the Patent and Trademark Office's use of user fees violates Congressional intent as expressed in P.L. 96-517 and P.L 97-247?

Our position on this point is set out in detail in our written statement. Briefly, the legislative history of the fee bills states that the increased fees are to be used initially to partially cover the cost of prosecuting patent applications and the actual cost of providing certain other services. As the maintenance fees become effective, an increasing portion of the cost of prosecuting patent applications will be covered by fees. There has never been fees charged to use the Search Room and there is no indication in the record that Congress intended to give the Patent & Trademark Office the authority to charge such fees.

3. As a flip side to this question, why is it preferable to use taxpayer money for automation?

The patent system is basically for the benefit of the public at large rather than for individual inventors. Thus, the Patent System per se should be supported by the taxpayer rather than the user. The purpose of automation is to give the Patent & Trademark Office the resources to put its files in better condition and make them more accurate and accessible and thereby enable the Patent Office to do its job more efficiently and accurately. Thus, the basic automation system equipment and cost for programming are capital expenses to provide the resources to enable the Patent & Trademark Office to do its job and, therefore, should be paid for by the Government.

4. I note from the testimony near unanimity of support for H.R. 2434. Who besides the Administration opposes it?

I don't know of any group other than the Administration and the Information Industries Association who opposes H.R. 2434.

5. If the appropriations for the Patent and Trademark Office continue to decline and the

restrictions on user fees in H.R. 2434 are enacted, we will face a dilemma. Will the PTO have to stop the automation project? If user fees were the only way to salvage automation, would you accept them?

If H.R. 2434 were enacted, I don't believe that the PTO would have to stop the automation project. They may have to slow it down, but as I said in my testimony, this is not necessarily bad because we are continuing to supply input from the private sector as to what the automation system should actually provide for the benefit of both the public and the Patent Office. If user fees were the only way to salvage automation, I doubt that the majority of the users of the system would support an ongoing program of automation at least at the rate the costs estimated for the program have been escalating. Increasing fees to be paid by patent applications to support automation could place the patent system beyond the reach of the independent inventor and small corporations to the detriment of the entire country. On the other hand, failure to proceed with the automation program will lead to further deterioration of the patent system which would also work to the detriment of the country.

6. If the $16 milllion is put back into the Patent and Trademark budget, would you favor using some of this money for trademarks?

Yes.

We sincerely appreciate the interest you have shown and efforts you have expended on behalf of the Patent & Trademark System.

Sincerely,

Robert B. Benson

Robert B. Benson
President

Senator **Mathias**. Thank you.

Mr. Finkelstein, if I could ask you to wait—I have a message from Senator Thurmond that they are about to take a vote in the full Judiciary Committee, and they are asking me to come downstairs. It will not take more than 5 minutes, so we will take a 5-minute recess at this time.

[A short recess was taken.]

Senator **Mathias**. The committee will resume its meeting.

Mr. Banner is mature enough to remember, as I do, the signs that used to be up in airports and train stations and bus stations that asked: "Is this trip necessary?"

Mr. **Banner**. Yes, I certainly do.

Senator **Mathias**. Well, I can tell you that my trip downstairs to the full committee was not necessary. [Laughter.]

Mr. Finkelstein, you have the floor—for a brief period.

STATEMENT OF WILLIAM A. FINKELSTEIN

Mr. **Finkelstein**. Thank you, Mr. Chairman. I will keep it brief.

I wish that this testimony were not necessary, and that is basically the theme of what I want to talk about regarding the trademark community's views.

Over the last number of years, certain representations were made to us with regard to a first-class Patent and Trademark Office.

Senator **Mathias**. I remember them.

Mr. **Finkelstein**. Absolutely. I was there, also.

USTA fully supports automation. The basic concept of automating the records of the Office makes sense; they contain the kind of data that is amenable to it. But clearly, the PTO seems to have stumbled along the way in many respects. The GAO report and the other studies speak for themselves.

The thing that disturbs the trademark community the most is that covenant, the bargain, that was made with the community when user fees were implemented has been broken. There are certain functions of the Patent and Trademark Office that go to satisfying its obligations under the law which clearly should not be borne by the users of the Office. Trademark owners who register their marks are not the only beneficiary of the registration of trademarks and the protection of trademarks. The climate of business and economic opportunity in this country is fostered not just by innovation on the patent side, but by business investment in strong brand names as well. The public benefits, the taxpayers benefit, and a general benefit to the country and the economy is achieved by the PTO's trademark services and obligations.

Congress recognized this and specifically said that the public search room and other general costs should not be borne by users when it approved the current fee program.

Yet, contrary to this and unlike the patent side, trademark users have been funding the Office completely, 100 percent, for the past years. There have been no funds appropriated for trademarks in the budget for several years now.

Fee income has also gone to fund automation. We are in favor of automation. We were not particularly consulted in any great detail while the automation plans were unfolding, however. Now we are confronted with a difficult situation. We were supposed to have an automated system at the cost of approximately $6.5 million. The costs at the present time have far exceeded that amount and we still do not have an automated system that works in many respects. We have heard numbers for just trademark automation alone, as opposed to the $700 million figure for both patents and trademarks, of upward of $40 million to finally complete the automated trademark system.

Senator MATHIAS. Did you just hear the figure of $700 million from GAO?

Mr. FINKELSTEIN. Yes. It is mind-boggling.

Senator MATHIAS. Where did that come from?

Mr. FINKELSTEIN. I do not know. I have heard numbers for just trademarks of $40 million, and that seems incredible when it was only $6.5 million 2 years ago.

Senator MATHIAS. It is a little like the deficit, isn't it?

Mr. FINKELSTEIN. Yes, absolutely.

I would also like to echo Mr. Benson's comments. I think, regarding automation of patent operations, there are lessons to be learned from the trademark experience. Unfortunately, we have been the test market in this situation.

I think it is time to go slow on trademark automation, as well, and that is one of the main reasons why USTA supports the House bill. We look forward with anticipation to the revised PTO Automation Master Plan to see if indeed it adopts some of the recommendations of GAO, and to determine whether or not the automated system is really going to work and go forward.

The House bill simply builds in a number of workable limitations and restrictions which will ensure congressional oversight and the integration of the user community's concerns into the automation process. This legislation does not, as the PTO and the administration might suggest, undermine the automation or user fee programs. In sum, USTA believes H.R. 2434 provides some workable ways to proceed forward at this time and it hopes the Senate bill concur.

Thank you, Mr. Chairman.

[Statement and responses to written questions of Senator Mathias follow:]

PREPARED STATEMENT OF WILLIAM A. FINKELSTEIN ON BEHALF OF THE UNITED STATES TRADEMARK ASSOCIATION

Mr. Chairman and Members of the Committee, The United States Trademark Association (USTA) thanks the Chairman for scheduling this hearing on legislation to reauthorize the U.S. Patent and Trademark Office and appreciates the opportunity to present its views on the PTO's current programs and activities. As USTA's scope of interest is limited to trademarks, this statement will address only those matters that relate to trademarks and the PTO's administration of the Federal trademark statute, the Lanham Act.

The Patent and Trademark Office is at a critical crossroad. Since it was last authorized in 1982 (Public Law 97-247, FY 1983-85), there have been significant changes affecting the way in which the PTO creates, maintains and makes available for public review the nation's federal trademark records. Some of these changes will enable the Office to improve the timeliness and quality with which it carries out its trademark activities. Others, principally those associated with fees and the PTO's trademark automation program, have given rise to public concern that the PTO has lost sight of the Federal Government's objectives and responsibilities in registering trademarks.

Concerns of the public with trademark-automation and fees have been brought into focus recently by the results of the General Accounting Office study of trademark automation ("Patent and Trademark Office Needs to Better Manage Automation Of Its Trademark Operations," April 19, 1985) and by the dramatic differences between the reauthorization legislation introduced at the request of the Administration (S. 866; H.R. 1628) and that reported by the House Judiciary Committee and approved by the House of Representatives (H.R. 2434). As the language of the House-passed bill deals directly with many of USTA's concerns with the direction the PTO's automation and fee programs have taken during the past three years, this statement will focus largely on the provisions of H.R. 2434 and why USTA believes their enactment is important.

THE TRADEMARK REGISTRATION PROCESS

The ideal on which the federal trademark registration system is premised is that a new mark will not be adopted if potential conflict exists with a mark already in use. This is predicated on anyone considering the adoption of a mark knowing, or being able to find out, what marks are already in use. Thus, the objective of the trademark registration system, and therefore the PTO's purpose under it, is twofold:

1. To provide those considering investment in a new mark the ability to review a complete and accurate record of marks already in use, and

2. To compile the information necessary to create and maintain that record.

The first aspect of the PTO's twofold objective in registering trademarks, providing a record of marks for public review, is carried out in the Trademark Search

Room. This Search Room, located in the PTO's Crystal City offices, is the only means the government offers the public for gaining access to its trademark records.

The trademark examination process is devoted to the second aspect of this twofold objective. Its purpose is to determine whether a mark that is being used qualifies for inclusion on the public record (i.e., registration). In determining whether a mark qualifies for registration, trademark examining personnal evaluate a mark in terms of whether it meets the federal standards spelled out in the Lanham Act. (There is a frequent misperception about this. The examination and registration process decides only whether a mark may be registered; it does not determine the question of whether a mark may be used. Questions of use are left to the judgment of trademark owners and their attorneys and the courts.) As a mark that conflicts with one previously registered would fail to meet federal standards, one element of the trademark examination process is a search of the existing record, as contained in the Trademark Search Room. It is important that this process be conducted in a timely and efficient manner to assure that the record is kept both current and accurate.

The reauthorization process provides the opportunity for Congress to consider whether the PTO is effectively accomplishing this twofold objective of providing the public with complete and accurate trademark information and whether it is promoting the underlying goal of deterring the adoption of marks that conflict with marks already in use.

H.R. 2434

USTA supports enactment of H.R. 2434, as reported by the House Judiciary Committee on May 15 and approved by the House of Representatives on June 24, because it helps assure that the PTO will, in the future, administer its trademark fee and automation programs in a manner that promotes the purpose and objectives of the PTO in registering trademarks. This legislation does not, as the Administration's opposition to it may suggest, undermine the PTO's automation and user fee programs; it simply establishes guidelines for implementing these programs in a manner that is consistent with the Federal trademark statute and in accord with Congress' intent when it approved these programs:

- H.R. 2434 assures that the public will continue to have access to and benefit from Federal trademark records by providing support for the Trademark Search Room and prohibiting the imposition of fees that are contrary to the constructive notice provisions of the Lanham Act.
- H.R. 2434 confirms that those functions that "go to meet the responsibility of the Federal Government to have the PTO in order to execute the law" will be funded by General Fund revenues, not user fees (House Report 96-1307, Part I).
- H.R. 2434 reiterates that user fee income is to be used as a means of enhancing the quality of the PTO's programs and the public services it provides, not as a means of off-setting all expenses the Office incurs.
- H.R. 2434 establishes that capital expenses are not to be borne by fees paid by current applicants and registrants.
- H.R. 2434 provides reassurance that Congress will continue to exercise active oversight in assuring that the PTO fulfills the purposes of the laws it administers.

In contrast, the reauthorization legislation introduced at the request of the Administration leaves the impression that the PTO's automation and user fee programs are being properly managed and ignores the existence of widespread public concern that the direction these programs have taken is in stark conflict with the purpose of the Lanham Act. This purpose was clearly enunciated in the Supreme Court's 1985 decision in Park 'N Fly, Inc. v. Dollar Park and Fly, Inc. Writing for the majority, Justice O'Connor stated:

> "Congress enacted the Lanham Act in 1946 in order to provide national protection for trademarks used in interstate and foreign commerce. S. Rep. No. 1333, 79th Cong., 2d Sess., 5 (1946). Previous federal legislation, such as the Federal Trademark Act of 1905, 33 Stat. 724, reflected the view that protection of trademarks was a matter of state concern and that the right to a mark depended solely on the common law. S. Rep. No. 1333, at 5. Consequently, rights to trademarks were uncertain and subject to variation in different parts of the country. Because trademarks desirably promote competition and the maintenance of product quality, Congress determined that 'a sound public policy required that trademarks should receive nationally the greatest protection that can be given them.' Id., at 6."

Section-by-Section Comments on H.R. 2434

Level of Appropriations (Section 1). In authorizing the appropriation of $101,631,000 for FY 1986, H.R. 2434 would restore PTO funding to its 1985 level by turning user fee income back into PTO programs. As Representative Moorhead stated when he spoke to this issue on the House floor, "We made a promise ... and if we make [the cuts proposed by the Administration,] we would be going back on our promise." These funds, only $16.9 more than the Adminstration's request, are important because they allow for essential spending not provided for in the PTO's FY 1986 Budget.

- It will provide Federal support for the patent and trademark search libraries (maintence of the Trademark Search Room in not included in the Administration's request).

- It will permit the PTO to continue its trademark automation program, a project Congress said was to be funded through appropriations but which the PTO has been paying for with user fees (this program was scheduled for completion the end of 1984 at a cost of $6.4 million; current estimates are that it has already cost $15 million and will cost $40 million before it is completed sometime in 1987).

- It will enable the PTO to disentangle itself from the Exchange Agreements it signed to convert its paper records into electronic form "without cost" (the legality of these agreements was questioned by the GAO; moreover, they provide foreign companies a copyright to government records and force the collection of royalty fees for U.S. citizens access to them).

- It will acknowledge that the Federal Government's responsibilities are not and cannot be met when user fees are the PTO's sole source of income (since the beginning of FY 1983, the PTO has neither asked for nor received any funds to administer the Lanham Act; it has relied exclusively on user fee revenues to fund all of its trademark-related obligations).

Funding for these PTO funtions and activities is imperative if the PTO is to meet its statutory responsibilities and obligations to the public.

"No-Year" Funding (Section 2). USTA does not believe this provision is controversial. It is contained in the Administration's legislation and generally recognizes that user fee income will fluctuate from one year to the next, and that, as promised, user fee income will be used to develop new programs that enhance the quality of the services the Office provides the public.

Limitations on Trademark Fees (Section 3). Subsection(a), in tying trademark fee adjustments to changes in the Consumer Price Index (CPI) and prohibiting the imposition of new trademark fees, eliminates two USTA concerns. First, it assures that trademark fees will continue to reflect an important balance between budgetary and policy considerations. Second, it assures that excessive or inappropriate fees will not be charged. With respect to this issue, USTA submits that even if fee adjustments are tied to changes in the CPI, their need should be substantiated nonetheless and that the PTO should not be permitted to impose new fees as a means of avoiding the intent of this limitation.

Search Room Funding (Section 4). In meeting its responsibilities is execute the law, no other PTO function is more important than providing for public access to its records. As stated in the House Judiciary Committee's report on H.R. 2434, "having patent and trademark records freely available to the public and widely disseminated gives a valuable public benefit to the public at large." In accordance with this, the Search Rooms should be unquestionably funded through General Fund appropriations and fees for their use should be prohibited. This holds true whether the search rooms consist of paper records or terminals that provide access to an electronic data base, or whether the search rooms are located in the Washington, D.C. area or around the country. Search room fees are also inappropriate because they are in direct conflict with the statutory provision for constructive notice.

Section 4 is important therefore, for two reasons: (1) It stipulates that the search rooms should be paid for by appropriated funds and (2) it prohibits the PTO from pursuing its efforts to charge search room fees.

Automation Funding (Section 5). Section 6 provides that the PTO can no longer rely on user fees to finance its automation programs. USTA strongly supports this provision as well. Its enactment would bring automation funding into conformity with explicit Congressional statements that the costs of PTO automation and other capital expenses were not to be considered recoverable through user fees.

As Representative Brooks stated when he offered this amendment during House Committee consideration:

> "Presently the entire trademark office, including their automation program, is being funded with user fees collected by the PTO. I believe this is contrary to the intentions of this Committee and Congress when the Agency was given the authority to collect fees. And it has allowed the Agency to escape the congressional oversight attendant to the appropriations process. My ... amendment, therefore, specifies that the automation program at the PTO may not be funded with user fees. Instead, the future repair and any further development of that program will require an appropriation from Congress. In that manner, we and others may evaluate the project as funds are requested."

This provision, and the Congressional policy it confirms, recognizes the inappropriateness of expecting current users to underwrite the costs of automating one hundred years of government records and of creating automated systems that are intended to sustain the Office's ability to meet its statutory responsibilities for many years into the future. Moreover, this provision places responsibility for correcting the PTO's costly mistakes where it belongs -- with the Federal Government. It removes the expectation that "users" should pay to correct PTO mistakes, especially when many of the mistakes may have been avoided if the PTO had considered its "users'" views.

In stating that automation should not be funded through user fees, USTA does not wish to imply that it no longer supports automation. It continues to believe that automation represents the most rational way for the PTO to efficiently conduct its work and that automation provides the potential for making the valuable public records the PTO compiles available to members of the public outside the Washington, D.C. area.

Prohibition Against the Use of Exchange Agreements (Section 6). The problems associated with the exchange agreements the PTO concluded to convert its paper trademark records into an electronic data base are well documented and USTA believes it is only prudent that the PTO not conclude further agreements of this type, at least until the requirements and obligations associated with their negotiation are clearly defined.

Moreover, and as USTA has expressed to the PTO on numerous occassions, the provisions of its data base exchange agreements with Compu-Mark and Thomson & Thomson/TCR are misguided, objectionable and contrary to the purposes of the Lanham Act. The assurance H.R. 2434 provides that these agreements will finally and completely be terminated is long overdue. It is imperative that the Federal Government regain the control of its trademark records that was traded away under these agreements and that unrestricted public use of and access to these records be restored.

TRADEMARK AUTOMATION

The controversy surrounding trademark automation goes beyond the need to terminate the data base exchange agreements and to provide funding to allow its completion. The public questions whether the system, when implemented, will meet the objectives set for it in the PTO's 1982 Automation Master Plan. In providing the reasons why automation was necessary and should be pursued, the Plan emphasized:

> -- The significance and necessity of providing the public and Trademark Office personnel with easy access to fully accurate and completely current information on the status, ownership and characteristics of trademarks that are registered and pending registration;
>
> -- The compelling need to refine searching of the Trademark Office's records by replacing the existing manual paper search system with an automated system that, in addition to assuring 100% validity of the Office's records, would improve searching by creating the capability to search marks by prefix, suffix, root words, automatic vowel substitution, phonetic similarities and design characteristics; and
>
> -- The reduced costs both the Office and the private sector would realize through automated processing of trademark registration applications.

Based on its expectation that the PTO would design and install a system that would achieve these objectives, USTA gave full support to Trademark Office automation. This confidence was misplaced, however, because pursuant developments reflected that the PTO had abandoned the very objectives automation was to achieve. Had USTA known in 1982 what it knows now about how the PTO would pursue automation, the limitations it would place on the public's ability to benefit from the system's installation and its plan to offset all costs with user fees, USTA would may have expressed grave doubts about whether the PTO's automation plan should have been implemented.

The problems with trademark automation were discussed at length in the GAO's report. The GAO found that the PTO had: (1) failed to identify the basic needs of the users of the system; (2) accepted terminal equipment that did not meet their requirements and replaced that equipment with other deficient equipment; (3) improperly used exchange agreements to circumvent federal procurement regulations; (4) negotiated terms to the Exchange Agreements that restricted PTO's control over its own resources, restricted public access to trademark information, and would have resulted in high fees being charged to the public; and (5) accepted an automated search system without fully testing it resulting in a system that was no better than the manual system it replaced.

USTA understands that the PTO is in the process of or has just completed writing a revised Master Plan and it hopes this document will address the outstanding questions about the project's current status and costs that it will identify in detail what is necessary to complete an effort to which the PTO has already devoted so much of its time and user fee income.

Whatever form the PTO proposes that the final, corrected system will take, USTA urges a comprehensive and careful evaluation of it prior to its acquisition. All of the system's users (including trademark professionals inside and outside the PTO), automation experts and budgetary analysts should be given the opportunity to raise and receive meaningful answers to the questions they may have. While this process may slow the completion of trademark automation, it would give recognition to the concerns raised in an internal PTO memorandum quoted in the GAO's report:

> "The lack of a consolidated, coherent functional requirement document... is a continuing handicap in Trademarks... From a systems point of view, it would have been more efficient, over the long haul, to have deferred the development of the ATS [Automated Trademark System] system, including especially TRAM, [the monitoring system] until the long-range concepts was [sic] solidified. ..."

The proposal to complete Trademark Automation must be carefully scrutinized in terms of its consistency with the PTO's purposes in registering marks. Such a system must: (a) promote the purposes of the Lanham Act by providing encouragement for businesses to have their marks included on the public record, (b) assure that marks submitted for registration be made part of that public record without delay, (c) facilitate the broadest, most complete access possible to the information contained in the PTO's records and (d) include features that will guarantee the accuracy of the records. The final system should, in sum, offer the benefits outlined in the Master Plan: (i) to provide Trademark Office personnel and the public with refined search capabilities, (ii) to improve access to the Trademark Office's public records, (iii) to assure 100% validity of the Office's records, and (iv) to reduce costs.

Remarkably, the ability of the PTO to reach even one of these goals is frustrated by provisions contained in the data base Exchange Agreements. As consequence, the PTO's responsibilities and obligations under these Agreements must be abrogated and assurances given that established objectives are met.

Refined Search Capabilities. There has never been much doubt that the automated search system designed for internal use by Trademark Office personnel would provide for more refined search techniques. However, while the PTO has renegotiated the Exchange Agreements to remove the provision that totally prohibits the public's ability to conduct more refined searches at terminals located in the Trademark Search Room, it has agreed to charge an hourly "royalty" fee for all public use of enhanced automated search techniques.

As limitations on public use of enhanced search techniques are antithetical to the purpose for which the PTO's trademark records exist and denies the public a major benefit of automation, the final system must provide for unrestricted public use of refined search techniques.

Improved Access. In considering automation's success in improving public access to Trademark Office records, it must be recognized that fees for all public use of the search room have been proposed for the first time in history and that the Exchange Agreement specifically prohibit remote searching outside the Trademark Office in Crystal City. These matters must be addressed if the objective of improved access is to be meaningful.

100% Validity. Whether automation will produce a more complete and accurate record of trademarks that have been registered and are pending registration cannot be concluded at this time. New problems, errors and gaps in the data base have emerged regularly and difficulties in the development of an electronic data base for design marks prevent its completion. Once the PTO establishes the level of accuracy and completeness it will find acceptable for the records converted under the Exchange Agreements, guidelines for which it has recently sought public advice, reasonable analysis of whether this objective will be met is possible.

Reduced Costs. Already, and despite its incomplete status, trademark automation costs have far exceeded estimates. Originally, the system was to be completed by the end of 1984 at a total cost of $6.4 million. Recently, USTA learned that the project will not be completed for a least two more years and that estimates of total costs range as high as $40 million. This is excessive by any standard, but is totally unreasonable, even outrageous, to expect that these costs should continue to be borne by current applicants.

Moreover, under the current system, the PTO has lost control over the public records it is responsible for maintaining, public access to public records has been limited, fees for public use of public records have been proposed and competition among private search firms may be eliminated by monopoly-assuring provisions in the Exchange Agreements.

One, if not the only, direct financial benefit of automation the PTO has claimed for its $40 million system is the cost savings that are being realized from bringing photocomposition of the Official Gazette in-house. According to the PTO in its FY 1986 Budget Submission, this savings amounts to $731,000, because it has enabled the PTO to cancel its printing contract. The actual saving is far less, however, as the quoted amount does not consider the additional overhead and personnel costs associated with bringing this process in-house.

It is therefore imperative that the PTO provide an accurate and understandable report of trademark automation's actual and obligated costs to date, a meaningful budget of what it will cost to fully implement trademark automation, and a statement of the savings automation will allow to determine if the objective of reduced costs will be met.

TRADEMARK FEES

In enacting Public Law 97-247 three years ago, Congress gave the Commissioner absolute authority to set trademark fees, effective October 1, 1982. The only statutory restrictions Congress placed on this authority were: (i) new fees had to be published in the Federal Register sixty days before they could take effect (a requirement for a public hearing was not included), (ii) fees could not be adjusted more than once every three years; and (iii) revenues derived from trademark-related fees could be used only for trademark-related activities. Since the Commissioner received this absolute fee-setting authority from Congress, the PTO has not asked for or received from Congress any General Fund revenues to offset its costs in administering the Federal Trademark Statute. This is in direct conflict with Congressional statements that the "overhead" costs of running the PTO, including the search rooms and automation should be funded by appropriations.

Enactment of H.R. 2434 would resolve several of the general concerns USTA has had with the manner in which the PTO has administered its trademark fee programs and it would bring PTO practice into accord with the guidelines USTA and other members of the "user" community understood Congress provided when approving the program. H.R. 2434 (i) prohibits the PTO from moving forward to implement fees for access to the search room that deny the important constructive notice provisions of the Lanham Act, (ii) precludes the further reliance on user fees to finance automation and (iii) assures that excessive or inappropriate fees will not be charged. In addition to addressing these specific issues, H.R. 2434 has the broader effect of reasserting the historically acknowledged national importance of the Federal trademark registration process by removing the expectation that the Trademark Office should be funded exclusively through user fees.

The Effect of Excessive Fees. Although the dramatically higher fees the PTO began charging following the enactment of Public Law 97-247 have not resulted in a noticeable decline in the number of trademark owners participating in the Federal trademark registration process, USTA remains concerned that small businesses, particularly, may be discouraged from registering their marks because of these fees. If this occurs, it is a very troublesome development because the benefits small and fledgling businesses realize from federal registration are, in some ways, greater than those received by large and thriving trademark owners.

Meaningful Cost Controls. In 1983, responding to concerns that the Trademark Office, funded exclusively by user fees, would escape meaningful budgetary oversight, Secretary of Commerce Baldrige committed himself and the PTO to keeping the public informed about the Trademark Office's financial condition. Review and analysis of the income and expense reports the PTO has made available pursuant to this commitment have consumed untold hours of the Commerce Department's own Public Advisory Committee's time. Yet, USTA suggests that if any of the members of that committee were asked, none would be able to state with assurance (i) how much revenue trademark fees have generated during the past three years, (ii) whether the PTO has instituted meaningful cost control mechanisms (an issue of critical importance in terms of the expense of automation) or (iii) whether, as statutorily required, trademark fee revenues have been used only to fund trademark-related programs and activities. The fact that, by the PTO's own admission, trademark fee income is not always distinguished from patent fee income, would appear to make it impossible for the PTO to meet its statutory obligation of allocating trademark revenues only to trademark activities.

Tying fees to changes in the CPI, in addition to placing a cap on the extent to which fees may be increased in order to recover potentially excessive costs, also precludes the possibility that the PTO will implement a fee schedule based solely on the philosophy of recovering "unit cost." This approach totally disregards, and would dramatically upset, the careful balance between the PTO's financial goals and the public policy concerns reflected in the existing fee structure that was established in close cooperation with the trademark community and Congress.

User Fees Generally. As the PTO is one, if not the only, real success the Administration has had in instituting a user fee program, it stands as an example for other programs that may be contemplated. As an association whose members were not totally antagonistic to the concept of paying user fees, USTA offers the following thoughts on user fee programs in general.

First, USTA believes that communities that are asked to pay user fees should be given strong assurances that Congress will exercise careful oversight of how an agency implements its authority to charge fees as a means of guaranteeing that financial issues do not overwhelm the agency's statutory purposes and objectives and that the agency's spending programs do not escape meaningful budgetary oversight. Instances of where USTA sees the PTO having lost sight of its statutory purposes include (i) its efforts to impose fees for public access to public records, (ii) its desire to modify current fees so that, irrespective of policy considerations, each one reflects "unit cost" and, perhaps most important, (iii) its agreement to mortgage control over the government's official trademark records and to severely inhibit public access to them by bartering for, rather than purchasing outright, services to convert its paper record into a data base for its automated trademark system.

Second, USTA suggests that an agency whose activities are funded in any significant way by user fees should become more, not less, responsive to the concerns of the public it serves most directly. If one applies this concept to how the PTO has approached trademark automation, for example, a completely opposite philosophy appears to have prevailed.

Third, USTA believes agencies that have been able to realize significant reductions in the amount of General Fund resources they require through the collection of user fees should be exempted from government-wide program cutbacks intended to reduce the deficit. This has not happened at the PTO.

Although income derived from the trademark registration process has made the process self-supporting and also funded other activities of the PTO during the past three years -- an accomplishment that has been given surprisingly little attention in an era when budget reductions are the prime political focus -- the Trademark Operation of the PTO is forced to operate within a personnel structure that denies it adequate support staff and the ability to create a management team of trademark professionals and (ii) to absorb gvernment-wide personnel and program reductions that are imposed to reduce a budget deficit on which its spending has had no effect. These cuts were acknowledged most recently in Acting Commissioner Quigg's July 8 speech to the Patent, Trademark & Copyright Section of the American Bar Association:

> "Since October, the start of fiscal year 1985, the PTO's operating budget, along with that of other agencies, has been affected by Administration decisions aimed at slowing the growth in the Federal deficit. Among the more significant of these is the requirement to absorb more than $3 million in costs associated with the January pay raise and $1 million in mandatory cuts in travel, printing, and non-essential spending. For the next fiscal year, there will also be a 10% reduction in administrative services as a part of the President's deficit reduction program."

This phenomenon is a continuing source of puzzlement to those, who by paying fees, were promised program enhancements and support for initiatives that would improve the quality and timeliness of the registration process.

Finally, user fees should not be relied upon as a form of taxation. USTA could not agree more with Chairman Kastenmeier's characterization of this practice as being "highly questionable both in terms of integrity and legality."

THE TRADEMARK EXAMINATION PROCESS

Thus far, USTA's statement has focused primarily on management and administrative issues and the success of the PTO in achieving the first aspect of its twofold objective - providing a record of registered trademarks for public review. The Trademark Examination Process is devoted to the second aspect of the PTO's twofold objective - determining whether a mark that is being used and has been submitted for registration qualifies for inclusion on the public record.

During the past three years, the trademark examination and registration process has continued to improve. Delays in registering trademarks and processing other trademark documents have been reduced, the Trademark Office has remained responsive to the substantive concerns of trademark owners in its registration practices and procedures and new efforts to assure that further improvements will be made are regularly undertaken.

Specifically noteworthy accomplishments during the last three years are:

°A continuing reduction in inconsistencies in the examination process. This has been facilitated by the Trademark Examining Operation issuing to the examiners, and making available to the public, Examination Guidelines that explain new policies and procedures so they may be uniformly applied and the production of a version of the World Intellectual Property Organization (WIPO) listing of acceptable identification of goods and services (i.e., generic words) tailored to the realities of the U.S. marketplace.

°Trademark personnel's ability to meet the pendency goal of rendering its first opinion on the registrability of a mark (i.e., issuing a first action) within three months with an acknowledgement of USTA's and other concern that improvements in the speed of the registration process should not displace the equally important issue of quality.

°The Trademark Trial and Appeal Board (TTAB) reducing the time it takes to consider and render decisions in conflicts over the registrability of marks (an achievement that has been set back recently because of the TTAB's apparent inability to hire necessary support staff).

°Making timely changes in the Trademark Rules of Practice (Title 37, Code of Federal Regulations) so that the Rules keep pace with the changing needs of the Office and the public it serves.

CONCLUSIONS

The last three years have brought about significant changes in the management and administration of the Patent and Trademark Office. Fees have produced revenues that enabled the trademark registration process to function without the need for any General Fund revenues and automation, discussed for years without result, is becoming a reality. Unfortunately, these changes have not been without problems.

In authorizing the Patent and Trademark Office for fiscal years 1986-88, it is important that Congress address these problems, particularly as they relate to the PTO's ability to fulfill its twofold objective of creating and maintaining the nation's federal trademark records and of providing these records for public review so that marks are not inadvertently adopted that conflict with marks already in use.

Congress should also be aware that the confidence of those the PTO serves most directly has been eroded by the problems that exist with the management and administration of the PTO's fee and automation programs. Efforts at restoring this confidence must be a priority and USTA believes that passage of H.R. 2434 is an important first step.

In conclusion, USTA once again expresses its appreciation to the Chairman and the Members of the Committee for their interest and attention to the operations of the Patent and Trademark Office and the importance of the Federal Trademark Registration System. It makes itself available now and in the future to be of assistance in answering any trademark questions that Members of the Committee may have.

RESPONSES OF WILLIAM A. FINKELSTEIN
TO WRITTEN QUESTIONS OF SENATOR MATHIAS

1. In past legislative actions, Congress has authorized user fees in some instances. Do any other countries with advanced patent and trademark systems charge the equivalent of user fees? If so, how do their fees compare with U.S. fees?

Every country with a trademark registration system charges trademark fees. However, the fees they charge cannot be compared to those charged by the United States without also comparing whether (i) the basis of their trademark rights, (ii) the purposes and beneficiaries of their registration systems, and (iii) the considerations leading to the registration of a mark are the same. USTA is unaware of any comparative study of worldwide trademark fees that considers these factors and would question one's value because its conclusions would be founded on subjective judgments.

The Basis of Trademark Rights. In the United States, trademark rights are founded in the common law of unfair competition where protectible rights commence with a mark's first use in commerce; they are not dependant upon government grant or recognition or federal registration. Therefore, trademark owners do not receive substantive ownership benefits when paying to register their marks. This is not the case in most other countries. There, as rights to use and defend a trademark may be wholly dependent on government grant, a trademark owner is paying for and receiving ownership rights, and possibly the right to do business, through the trademark "registration" process.

The Purpose of Registration. In the United States, trademarks are registered federally with the primary purpose of creating a public record of rights that are owned and protectible at common law. Since passing the first trademark registration statute over one hundred years ago, Congress has recognized that such a record is in the national interest -- it fosters competition, promotes product quality, protects business investment and good will, and helps prevent consumer confusion. Since those who register trademarks in the United States make creation of this record possible, the fees they pay are subsidies that offset the government's costs in performing a valuable service that benefits the entire country.

In most other countries, registration has the purpose of conferring, rather than registering, rights. There, trademark fees represent payment for the basic ownership rights U.S. trademark owners acquire through use.

The Registration Process. Through the examination process that precedes registration of a mark in the U.S., the federal government (i) judges whether it believes the rights a trademark owner has established through use are protectible at common law and (ii) determines whether the mark meets the other criteria Congress set as prerequisites of registrability. Thus, the PTO's refusal to register a mark does not deny a trademark owner the right to use or defend its mark, it only means that the mark does not qualify for inclusion on the federal record. Until three years ago, Congress recognized and accepted that funding this process was, at least in part, the responsibility of the federal government.

In countries where trademark ownership rights derive from grant rather than use, governments can grant or refuse rights in a trademark by any standard they independently believe appropriate. Because registrants are totally dependent on these systems to acquire protectible trademark rights, these governments often use trademark fees as a means of generating income.

2. Why do you think that the Patent and Trademark Office's use of user fees violates Congressional intent as expressed in P.L. 96-517 and P.L. 97-247?

The legislative histories of P.L. 96-517 and P.L. 97-247 contain clear statements that certain PTO activities were to be funded by General Fund revenues, not user fees. In implementing these laws, the PTO is disregarding these statements.

Public Law 96-517. The Administration request that led to the enactment of P.L. 96-517 in 1980 was prompted by the overwhelming need to improve the quality of the PTO's operations by increasing its revenues. As proposed, the legislation included a provision that trademark fees should recover all the costs associated with the PTO's processing of an application to register a trademark. Congress rejected this suggestion, stating:

> "... the PTO, in issuing patents and registering trademarks, performs a significant public service in implementing the Federal patent and trademark laws and also confers benefit on private persons who seek to protect their intellectual property. The Committee, therefore, supports the premise that patent applicants and those seeking to register trademarks should bear a significant share of the cost of operating the PTO by the payment of fees. However, the Committee has made certain amendments to the formula which empowers the Commissioner to set these fees. Certain costs of operating the PTO confer no direct benefit on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law. For example, the cost of executive direction and administration of the office, including the Office of the Commissioner and certain agency offices involved with public information, legislation, international affairs and technology assessment. Maintaining the public search room confers a general public benefit, as does the maintenance of the patent files in depository libraries. ...Some of the cost of operating the PTO confers no direct benefit to the general public, but goes to providing services to private parties. The cost of customer services such as providing copies should be recovered 100 percent in fees." (House Report 96-1307, Part I, pages 8-9)

In saying this, Congress divided the PTO's costs into three separate categories:

1. Those incurred in order to provide for the PTO's ability to register trademarks and grant patents. These costs were to be paid entirely (100%) through General Fund revenues and were specifically identified as "Commissioner (includes Office of Information Services); Office of Legislation and International Affairs; Management planning; Administrative services; Automatic data processing; and Search room."

2. Those incurred in processing applications. These costs were to be equally shared by the Government (through General Fund appropriations) and applicants (through fees).

3. Those incurred in filling special "private" requests. These costs were to be borne entirely by those making the request.

Public Law 97-247. Even before the PTO determined the fees it would be charging under P.L. 96-517, efforts were initiated to allow the PTO to charge fees that would recover all of its trademark processing costs (i.e., category 2 costs above). The change, as proposed by the Administration, did not include any mention of providing for the recovery of any "category 1" costs, and the legislative history of P.L. 97-247 does not indicate that this was intended:

> "Public Law 96-517 ... provides, 'Fees will be set and adjusted by the Commissioner to recover in aggregate 50 per centum of the estimated average cost to the Office of such processing. Fees for all other services or materials related to trademarks and other marks will recover the estimated average cost ... of performing the service or furnishing the material.'
>
> "The Administration requested that the figure, '50 per centum', should be changed to '100 per centum', thus mandating full recovery to the Treasury of all costs associated with processing trademarks. An amendment offered during subcommittee consideration of the legislation proposed to reduce fee generated revenue to less than the 100 per centum recovery level. The amendment was not agreed to. The author of the amendment, Mr. Frank, then proposed to amend the law to provide a statutory fee schedule which would return revenue to the Patent and Trademark Office at a level designed to recover 100 per centum of costs. However, following consultations with interested parties, Mr. Frank modified his amendment simply to repeal those portions of P.L. 96-517 which mandate a specified level of cost recovery for the processing of trademark registrations. Thus, the level of cost recovery for processing of trademark registrations will be within the discretion of the Commissioner. ..." (House Report 97-542, page 3)

Since passage of P.L. 97-247, the PTO has adopted a new definition of "processing an application" for the purpose of calculating costs that are recoverable through fees. This definition is in direct conflict with Congressional intent because it includes costs that Congress specifically identified as non-recoverable. As a consequence, "users" are being expected to pay costs that Congress stated should be funded through General Fund revenues. The most glaring examples of these costs are those associated with automation, the search room and non-processing activities that "confer no direct benefit on applicants but rather go to meet the responsibility of the Federal Government to have a PTO in order to execute the law."

3. As a flip side to this question, why is it preferable to use taxpayer money for automation?

Whether fee revenues or tax revenues are used to finance PTO automation, taxpayers will be paying. The real question then is whether the costs should be borne by only a small segment of taxpayers, through the payment of fees, or whether the costs should be underwritten by General Fund Revenues. USTA believes that General Funds are the appropriate source for financing automation because:

1. Congress, in authorizing a user fee program for the PTO, specifically stated that automation costs were not to be considered recoverable through fees;

2. The costs of any automation project that enables the federal government to properly execute and administer one of its laws should be shared by all taxpayers; and,

3. It is inequitable to expect current fee payers to continue to underwrite the costs of a system that will automate 100 years of government records and will permit the PTO to carry out its statutory responsibilities into the next century.

4. If the appropriations for the Patent and Trademark Office continue to decline and the restrictions on user fees in H.R. 2434 are enacted, we will face a dilemma. Will the PTO have to stop the automation project? If user fees were the only way to salvage automation, would you accept them?

With respect to the trademark-related functions of the PTO, appropriations cannot decline. They have been at zero for the past three years because the Administration has not asked for and continues to oppose any measure of federal support to execute the federal trademark statute. For trademarks, therefore, the issue is whether funding will be allocated to enable the PTO to live up to the representations it, the Commerce Department and Congress made to obtain trademark community support for higher fees.

The question of whether USTA would support the use of fee revenues as the only way to salvage automation is difficult to answer. It is also difficult for USTA to understand why this question was not posed 3 years ago before the Commerce Department and the PTO committed themselves to its completion and invested $15 million in a system with the expectation that users should pay and would continue to pay.

While it would be irresponsible to shut down a system into which so much time and money have already been spent, USTA also believes that, regardless of how the project is to be financed in the future, it is equally unrealistic to continue the project without clear indications of how much the completed system will cost to install and maintain, whether the cost savings that the system was to provide will be realized, and whether the system will meet its stated objectives.

5. If the $16 million is put back into the Patent and Trademark budget would you favor using some of this money for trademarks?

Unquestionably, yes. The costs the PTO incurs in fulfilling its responsibilities to execute the federal trademark statute and its purposes of maintaining and disseminating information on the trademark rights that exist throughout the country at common law demand that some measure of General Fund support for the PTO's trademark activities be reinstated.

6. It has been said that charging fees for the automated search room or that increasing fees for trademarks and patents will discourage innovation by discouraging registration. Do you have any evidence of this? How do you or how would you measure this?

Fees for searching the records contained in the PTO's trademark search room, whether they are maintained as paper documents or in a machine-readable data base, are contrary to the constructive notice provisions of the Lanham Act. In addition, the imposition of user fees for the search room is in conflict with Congressional intent in authorizing user fees for the PTO and raises a larger philosophical issue of whether public records are truly public if a fee to access them is assessed.

The effect search fees and/or continuing increases in registration fees would have on innovation and productivity cannot be quantified. Yet, it is undeniable that affording meaningful protection to intellectual property rights contributes to a healthy and prospering economy. As fees represent an impediment to use of the systems the United States has designed to protect the intellectual property rights of its citizens, however, their effect cannot help but be negative.

USTA knows of no study of the number of marks that have not been adopted for use because a potential user conducted a search of the records compiled through the trademark registration process and contained in the trademark search room. But because every mark that is not registered or searched gives rise to the possibility of costly, unnecessary litigation and the loss of a potentially sizeable investment, anything that would discourage use of the trademark registration system, increases the uncertainties a business faces when it considers marketing a new product or service.

7. In his testimony Mr. Quigg indicated that it is appropriate to charge user fees where benefits go to a specific group of individuals at a cost to the government. Could you please indicate what PTO functions you think it is appropriate to charge user fees for and which ones it is not and why?

To what extent should the PTO provide no-fee information services -- by type of service, by amount per user, and by geographic extent? Do you make any distinction between documents and enhanced data base services?

USTA does not oppose the concept that those who receive a special, identifiable benefit from a given government service should pay for it. However, the PTO's approach to user fees is in conflict with this philosophy because it not only forces trademark registrants to pay all the costs associated with the processing of applications, it presumes that they should also pay all of its costs in executing a federal statute that, absent the benefits it confers on the general public, probably would not have been enacted.

The basic purpose of the PTO is to collect and disseminate information. As such, it can be compared to the Census Bureau and since no one is suggesting that individuals should pay a fee in order to be counted, USTA would argue, in the abstract, that any PTO function that contributes to the collection or dissemination of a searchable public record of trademark rights should not be funded by fees. In reality, however, USTA believes that some minimal fees are appropriate in order to discourage frivolous filings. At what point these fees reach levels that discourage use of the system and undermine its effectiveness or purposes is a matter of conjecture and cannot be measured simply in terms of whether the number filings or searches decrease.

As providing of copies of records and similar activities do not have a statutory significance or purpose and represent true customer services, the costs the PTO incurs in providing these services should reasonably be paid through fees. USTA would also agree that anyone who desires private access to the PTO's records, for example through purchase of a subscription to the PTO's statutorily-mandated *Official Gazette* or through private access to the PTO's records through a remote terminal, should anticipate paying a fee.

For the purpose of charging search fees, USTA does not draw a distinction between documents and the data base services the PTO plans to provide under its automated system. This is because the PTO plans to supplant its paper records with an automated system with search capabilities that are no greater than those that would exist under a well-maintained paper system.

8. Some maintain that imposing fees for automated searches keeps the PTO from competing with commercial search firms that provide similar services to the public for a fee. If fees are not charged for automated searches, do you see the PTO becoming the dominant source of machine-readable trademark and patent services in the U.S.? If so, how do you see innovation and improvement arising for the patent and trademark information services?

USTA does not understand this concern. For years, individuals and professionals have searched the PTO's records free of charge without opposition being voiced by commercial search firms or the argument being made that the government was competing with them. It is puzzling why this issue should arise simply because the PTO has decided to maintain and make available its public records in a machine-readable format.

Regardless of whether the PTO is automated, businesses and individuals will continue to require the services of commercial search firms and professional searchers for the same reasons they have employed them for years: (i) their searches are not limited to federally registered marks or marks for which federal registration is sought, (ii) they employ different types of search systems and techniques, and (iii) the subjectivity and creativity necessary to the completion of a thorough search will continue to depend on the perspective, knowledge and skills of the individual constructing and defining the search.

Even if trademark owners were provided the opportunity to search the PTO's trademark records through terminals located throughout the country and even in their own offices, the need for the services provided by commercial searchers would not decline. In fact, USTA submits that the demand for commercial searches would increase and employment opportunities in the trademark search field would expand if the the PTO's records were more widely disseminated and the importance of searching them were more widely known, particularly among small businesses.

Companies with the resources to purchase on-line access might want to hire specialists to conduct their searches of the PTO's records. Nonetheless, they would still require the services of commercial search firms for obtaining information on trademark rights that are not recorded or do not qualify for inclusion on the federal register. If, however, remote access was provided only in certain locations (for example, the Patent Depository Libraries), those interested in obtaining a professional search of the PTO's records would not be limited to hiring searchers living in the Washington, D.C. area.

As employment opportunities in the professional trademark search profession increased, new and different ways to conduct and market searches would emerge. Thus, innovation and improvements in trademark information services would continually arise.

Senator **Mathias**. Thank you, Mr. Finkelstein.
Mr. Zurkowski?

STATEMENT OF PAUL ZURKOWSKI

Mr. **Zurkowski**. Thank you. I am a little out of sync, perhaps, with the rest of the witnesses this morning. I represent an association of information companies called the Information Industry Association.

The definition of the industry is a fairly broad one. It includes computer manufacturers, communications companies, software producers, videotex companies, and information publishing companies. The core constituency, however, is companies concerned with the creation, the adding of value, and the delivering of information content.

For purposes of this hearing, several of the member companies that are involved here include Pergamon InfoLine, Derwent, Questel, Mead Data Central, Thomson and Thomson, SDC Information Services, DIALOG, and Research Publications.

We are here to talk a little bit about the automation project, the PTO's attempt to apply information technology. We commend the PTO for its use of commercial data bases, while at the same time automating its own files. This puts the diversity of tools created in the marketplace at the disposal not only of the public, but of the examiners and the Patent Office as well.

I would like to emphasize that this morning over at the SEC, there was a hearing on the SEC's plan to automate its filing requirements. The Edgar project is the subject of a lengthy hearing, and much of the stuff you are hearing here is being reported over there. They are talking about a $63 million project.

Senator **Mathias**. Where did this $700 million figure come?

Mr. **Zurkowski**. I have never heard that number before.

Senator **Mathias**. You heard it this morning, didn't you?

Mr. **Zurkowski**. I just heard it, yes.

Senator **Mathias**. I think we are going to have to look at that one further, but I do not want to interrupt you.

Mr. **Zurkowski**. It is easy for these costs to escalate. That is a little astonishing. I thought the $63 million that was being discussed over at the SEC was a little audacious, but——

Senator **Mathias**. I thought maybe coming from the angle that you were coming from this morning, you could throw some light on that.

Mr. **Zurkowski**. Unfortunately, an association often is the "cobbler's child" in terms of the information resources that are available to it.

Senator **Mathias**. Well, if you hear anything, pass it on.

Mr. **Zurkowski**. We would be happy to oblige.

These projects seek a new level of Government's involvement in the information arena. Your decisions in this matter will set important precedents for the future. They raise pressing public policy questions—I think you have heard it from the user side; I do not think you have heard it from the producer's side. We have asked that a filing that we made with OMB on A-25 and on the basic policy statement of OMB be included in the record just to provide you access to some of these other policy precedents and what we think of them.

We do want to see the PTO succeed here, and to do so, we think that a reliance on a mixture of funds from filing or input fees, appropriated funds, and user fees are absolutely necessary. For these systems to happen, contributions to the cost will have to come from all beneficiaries, whether filers—in this case, the patent and trademark applicants—the agency itself, or system users such as the inventors, entrepreneurs, and patent and trademark practitioners. There is no good reason to rule out any source of funds.

Filing or input fees are well-established practice in the PTO and other agencies and offer good precedent for handling the funding of the system. Applicants should pay their fair share associated with the functions of examination and maintenance. Similarly, the agencies should expect appropriated funds to pay for executive, as opposed to functional operations. Few policies can be more basic than that in title 31, requiring that the Government run by appropriated funds.

Users will have to bear their share of the cost as well. It is simply inconsistent for any group of beneficiaries, especially users, whether on- and off-premises of any Government agency, to say that they want a large, advanced system at their disposal, but are unwilling to contribute in any way to its cost.

OMB Circular A-25, in effect for over 25 years, calls for user charges where Federal operation confers identifiable direct benefits on users. That is certainly the case here. There is no compelling reason that patent and trademark content of the data bases should alter sound fiscal and information policy.

We recognize the Commission is obligated to provide constructive notice as to the rights claimed in marks, as well as a library of documentation on inventions. At the same time, the contribution of the diverse value-added patent and trademark database services should also be preserved. We believe the two can be accommodated—they are not accommodated by the extreme view of constructive notice that full-time practitioners who readily charge fees for their services deserve an unlimited, 100-percent subsidy for their on-line searches. Nor should other users who have had no-fee access to patent documents at title 15 patent depository libraries or title 44 depositories expect unlimited access to these enhanced, value-added expensive database services on-site or on-line.

One way for satisfying the constructive notice requirement and to meet the needs of individual pro se inventors would be to adopt an innovative approach like that adopted by the National Agricultural Library. That library has set a certain service level at no charge to any customer, and beyond that, it assesses fees to moderate and heavy users. The same sort of policy should be set for PTO's public search rooms in Arlington. And in light of the easy access to on-line data bases from remote locations, the fee policy for search rooms has implications for the rest of the country.

I think I need to cut this short, but let me say in conclusion two basic points. The Patent Office is seeking to establish a high and unprecedented level of service, raising serious policy issues of particular concern to this industry which has developed and is offering, in the marketplace, competitive services. The information industry in the United States is the mothership of the information revolution. This is an area of economic development which this country continues to lead in. Today's economic realities require careful consideration of the effects of the way this service is implemented. Take advantage of the private sector's products, what they have developed in the marketplace—don't put them out of business.

Finally, we need to provide a safety net for the pro se inventor. Patent fee practice already provides an example of what we would suggest in this regard. We do not have a detailed proposal to offer to you in terms of how to allocate the costs among the various beneficiaries of the PTO's automation system. However, spreading the cost is, in this economic climate, the only fair and viable economic path that we can follow.

We will be happy to help with any design of such a system.

Thank you for your time.

[Statement of Mr. Zurkowski and additional submissions for the record follow:]

PREPARED STATEMENT OF PAUL ZURKOWSKI

Good morning, Mr. Chairman. I am Paul Zurkowski, President of the Information Industry Association. Accompanying me this morning is David Peyton, Director, Government Relations. The Information Industry Association is the trade association, founded in 1968, serving over 400 companies pursuing business opportunities associated with the generation, distribution, and use of information. Our core constituency is information publishers or content providers, many of whom produce or vend computerized databases. Member companies actively providing services in the patent and trademark area include Pergamon InfoLine, Derwent, Questel, Mead Data Central, Thomson and Thomson, SDC Information Services, DIALOG, and Research Publications.

We wish to address the Patent and Trademark Office's timely and precedent-setting automation efforts. The PTO's application of new information technology to its mission is both appropriate and necessary. We commend the PTO for its use of outside commercial databases at the same time that it moves towards automating its own files. This puts the diversity of tools available in the marketplace, tools generated by marketplace forces, at the disposal of the office. The PTO is one of a small group of executive agencies whose large-scale database automation projects are leading towards the electronic filing, analysis, and dissemination of information required by statute. Other agencies with similar ongoing projects include the Securities and Exchange Commission and the Federal Maritime Commission. By learning all that is involved in such automating, these agencies are setting examples which other agencies—whether federal, state, or local—may follow in the next several years. For all such agencies, reliance on private-sector capabilities will be as necessary as the new technology itself.

It is clear, that these new automation projects raise a number of pressing public policy issues. We have attached a list of the principal ones we have identified to date. We will be glad to address any of them in the question and answer period or in a supplemental written submission to the Subcommittee. In the limited time available I will confine my remarks to the question of paying for the PTO's automated systems. How can the very large initial and maintenance costs incurred by these systems be defrayed? Where are the tens or even hundreds of millions of dollars going to come from?

Mr. Chairman, we want to see these systems happen. We want to see the PTO and its fellow agencies succeed. A reliance on a mixture of funds—from filing or input fees, appropriated funds, and user fees— is both forward-looking and necessary. For these systems to happen, contributions to the cost will have to come from all beneficiaries, whether filers—in this case patent and trademark applicants—the agency itself, or system users, such as inventors, entrepreneurs, and patent and trademark practicioners. There is no good reason to rule out any one source of funds at the start.

Filing or input fees are well established in the practice of the PTO and other agencies. Applicants should pay their fair share associated with the functions of examination and maintenance. Similarly, the agency should expect to seek appropriated funds to pay for executive, as opposed to functional, operations. Few policies can be more basic than that in Title 31 that the government runs by appropriated funds. If Congress wants to see automation happen, it will have to be prepared to draw from taxes.

Users will have to bear their share of the costs they create as well. It's simply inconsistent for any group of beneficiaries, especially users on or off premises of any government agency, to say that they want an advanced system at their disposal but are unwilling to contribute in any way to the costs. Moreover, OMB circular A-25, in effect for almost 30 years, calls for user charges where a federal operation confers identifiable direct benefits on users. That's surely the case here. There's no compelling argument that the patent and trademark content of the databases should alter sound fiscal and information policy. The core of A-25 is carried over into the new draft OMB information policy circular, issued last March 15. Our comments to OMB on the development of this policy contain a detailed analysis of the applicable regulations and precedents. We ask that it be included in the record. We also ask that our policy statement on government competition, entitled "Meeting Information Needs in the New Information Age" be included in the record as well.

We recognize that the Commissioner is obligated to provide "constructive notice" as to the rights actually held in marks and inventions. At the same time, the contribution of diverse value-added patent and trademark database services must be preserved. We believe the two can be accommodated. They are not accommodated by the extreme view of constructive notice, taken by some, that full-time practicioners, who readily charge fees for their services, deserve an unlimited 100% tax subsidy for online searches. Nor should other users, who have had no-fee access to patent documents at Title 15 patent depository libraries or Title 44 depositories, expect unlimited access to these enhanced, value-added, expensive database services.

One way to satisfy the requirement for constructive notice and to meet the needs of small inventors would be to adopt an innovative approach like that of the National Agricultural Library. The Library has set a certain service level of no charge to any customer; beyond that, it assesses fees to moderate and heavy users. The same sort of policy should be set for the PTO's public search rooms in Arlington. In light of the easy access to online databases from remote locations, the fee policy for the search rooms has implications for the rest of the country. Providing no-fee services in Arlington may well generate strong demands for the same benefits from users elsewhere.

Our concerns are well founded. The PTO is now spending, outside of any established information policy, almost $500,000 per year to provide no-fee online access to its CASSIS database at patent depositories. Constructive notice surely does not require the PTO to operate a nationwide online network at taxpayers' expense. Moreover, this system wastes tax money. We have calculated that the libraries could have purchased equivalent commercial services for a little over a third the cost. If the PTO further expands this operation to include all data available in the public search rooms, the result will be a government enterprise dominating and even suppressing private service offerings. In that event, the array of diverse services to meet the needs of various users which could flourish in the marketplace simply would not happen.

Accordingly, the PTO should be authorized and directed to collect some fees for public searches at its Arlington premises and at the patent depository libraries. We acknowledge that we do not have a formula for cost allocation among the various beneficiaries of the PTO's automation. However, spreading the cost is the only fair and viable path, and we will be glad to work with the Subcommittee to develop a workable plan.

Mr. Chairman, I thank you for the opportunity to appear this morning and am ready to answer questions.

DEVELOPMENT OF AN O.M.B. POLICY ON FEDERAL INFORMATION MANAGEMENT

A Statement
of the
INFORMATION INDUSTRY ASSOCIATION

November 28, 1983

EXECUTIVE SUMMARY

The Information Industry Association represents private sector companies in the commercial information marketplace. It strongly supports OMB efforts in developing federal information management policy, a function clearly mandated by the Paperwork Reduction Act. Two principal areas of concern are government competition with the private sector and user charges for government information products and services.

OMB Circular A-76, while supporting reliance on the private sector, does not directly address the issue of government providing commercial products and services in the marketplace. More precise policy, such as the July 1980 OMB proposal on information dissemination, is needed. There are numerous examples of government information activities which tend to drive private sector entrepreneurs out of the information marketplace, thus reducing the range and depth of information products and services available to the American public and the world at large. Congress has provided some guidance on government's proper role, including legislation enacted in 1948 and legislative history developed in 1980. The Department of Commerce, the National Commission on Libraries and Information Science, and the National Science Foundation, have also explored this issue. IIA has examined this history and has developed a policy statement and a proposed OMB circular that would incorporate many of the common themes from these Congressional and Executive efforts.

IIA believes that government generally ought not to offer information products and services in the commercial marketplace, but if it does, it should set prices in a rational manner that diminishes competition with the private sector. There is a lack of understanding of the economics affecting information and OMB should devote more attention to this area. The statutory and regulatory basis for user fees does not directly address information products and services; however, Congress has provided specific cost recovery policy in a number of statutes establishing information activities. Absent from these statutes is a precise definition of "cost," but legislation passed by the Senate in 1981 provides a useful model OMB should consider.

IIA recommends that federal information management policy should also be concerned with the following issues: the need to respect intellectual property rights in information products and services it buys; the need for consulting with the private sector when planning information activities; "sunset" provisions for information activities; and the availability of lists of consumers of government information. Also, legislation to improve government information practices, especially in the area of the Government Printing Office, should be advanced by OMB.

* * *

The Information Industry Association welcomes the opportunity to respond to the Solicitation of Public Comment appearing in the Federal Register on September 12 (49 FR 40964). We believe that the development of a policy circular concerning Federal information management should be one of the Administration's highest priorities.

The need for policy attention in this area is driven by the fact that the entire information landscape is changing. Technological changes have brought about an ever-expanding number of new users of information products and services and the resultant marketplace considerations have led to the development and rapid growth of a private sector information services industry. The existence of this industry demands a careful reexamination of information activities of the government and the relationship of these activities to those of the private sector.

This reexamination is of critical importance in a democratic form of government. The ability of our citizens to access information about our government has a direct bearing on their participation in the democratic process. Equally important is their ability to access all other types of information, information that has a direct bearing on the quality of life our citizens enjoy. In both cases, the information needs of the citizens, we believe, is best met by a pluralistic, competitive information marketplace. One of the fundamental goals of information policy should be the encouragement of such a marketplace.

As a first step, we believe, government information policy should be explicit and stable. The Office of Information and Regulatory Affairs is the appropriate focus for the development and dissemination of such policy. While the early activities of OIRA, following the passage of the Paperwork Reduction Act, may have focused a great deal of energy on regulatory and information collection issues, we are heartened by the apparent broadening of attention to information policy issues reflected in this request for comments.

The Information Industry Association, founded in 1968, is the trade association representing private sector companies involved in all aspects of the collection, storage, processing and distribution of information content in the commercial marketplace. (A list of our membership is in the Appendix.)

Some of our members are engaged in the secondary publishing of government documents. These firms have developed information retrieval services which include sophisticated indexing, abstracting and document delivery systems designed to help users to access government documents and the important information they contain. Others, responding to their understanding of marketplace demand, have developed new information products and services covering a whole range of subjects, some of which are included in information products and services provided by the government. Therefore, our membership has a great interest in the information practices of government agencies. In the predominance of cases, this concern addresses the area of dissemination of information by the government, but we are also concerned with policies addressing the collection and management of government information.

AUTHORITY AND FUNCTIONS OF O.M.B. UNDER THE PAPERWORK REDUCTION ACT

In developing our comments, we were especially mindful of the overall authority and functions of the Director of the Office of Management and Budget, as prescribed by the Paperwork Reduction Act (P.L. 96-511). We believe this statute clearly empowers the Director to serve as the focal point for the development of Federal information policy.

Those functions of the Director (appearing in Section 3504 of the Paperwork Reduction Act) which are most directly addressed by our comments are as follows:

> (b)(1) developing and implementing uniform and consistent information resources management policies and overseeing the development of information management principles, standards, and guidelines and promoting their use;
>
> (b)(2) initiating and reviewing proposals for changes in legislation, regulations, and agency procedures to improve information practices, and informing the President and the Congress on the progress made therein;
>
> (b)(3) coordinating, through the review of budget proposals and as otherwise provided in this section, agency information practices;
>
> (b)(5) evaluating agency information management practices to determine their adequacy and efficiency, and to determine compliance of such practices with the policies, principles, standards, and guidelines promulgated by the Director;
>
> (d)(1) developing long range plans for the improved performance of Federal statistical activities and programs;
>
> (d)(2) coordinating . . . the functions of the Federal Government with respect to gathering, interpreting, and disseminating statistics and statistical information;
>
> (d)(3) developing and implementing Government-wide policies, principles, standards and guidelines concerning statistical collection procedures and methods, statistical data classifications, and statistical information presentation and dissemination;

(g)(4) promoting the use of automatic data processing and telecommunications by the Federal Government to improve the effectiveness of the use and dissemination of data in the operation of Federal programs.

EXISTING O.M.B. CIRCULARS

We recognize that one of the principal objectives of the Solicitation of Public Comment is the consolidation of existing OMB Circulars that deal with federal information management policies. While we have reviewed each of the documents enumerated in the Federal Register notice, it is not our intention to comment on each. Rather, we will state that we support the concept of consolidation; furthermore, we endorse the concept of developing an overarching policy document with procedural documents issued (as appropriate) by OMB, the General Services Administration, the National Bureau of Standards, or individual agencies. Because of our overriding interest in the effect of government information practices that affect the marketplace, our principal focus will be on OMB Circular A-76, dealing with contracting for commercial products and services, and Circular A-25, which addresses the setting of user fees.

COMPETITION WITH THE PRIVATE SECTOR

The Federal Register notice provides a comprehensive list of issues that may be included in a policy document dealing with federal information management policy. Our comments will address a number of these, but one, the issue of "Competition with the Private Sector," is of the greatest importance to us. This issue, i.e., what effect government information practices have on the information marketplace and the private sector firms that operate in that market, as well as the issue of User Fees (addressed below), are concerns that have occupied IIA since its establishment in 1968. Our call for an information marketplace in which there is fair competition is not the special pleadings of an affected industry; rather it is a call for policy that is in the interest of the public at large. Only a marketplace that offers consumers a diversity of choice of information products and services, both as to content and format, truly serves the varied needs of our diverse population. Such a market can only develop in an atmosphere of unfettered competition.

Our historical work in the area of government competition has led us to the development and promulgation of a policy statement that attempts to summarize our thinking on the appropriate roles of the public and private sectors in the creation and dissemination of information. A copy of that statement, Meeting Information Needs in the New Information Age, is included in the Appendix. We are distributing this document widely to policymakers both in the executive and legislative branches.

Circular A-76

Your Federal Register notice succinctly describes the inadequacy of OMB Circular A-76 to deal with the issue of government competition with the private sector. There is no doubt that A-76 contains the right philosophical orientation:

> In the process of governing, the Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength. In recognition of this principle, it has been and continues to be the general policy of the Government to rely on commercial sources to supply the products and services the Government needs.

But as the Solicitation of Public Comment correctly notes, this policy deals with the needs of the government and does not directly address the issue of the government's provision of products and services for the public's use. We have commented on this subject in the past, and a copy of our submission in conjunction with the revision of A-76 earlier this year is in the Appendix.

The thrust of our comments on Circular A-76 was that when the government has an information need, it should examine the availability of "off the shelf" products and services, rather than developing (either "in-house" or by contract) a similar product or service. This approach is consistent with Congressional guidance with regard to certain information activities. For example, the Standard Reference Data Act states, "In carrying out this program, the Secretary shall, to the maximum extent practicable, utilize the reference data services and facilities of other agencies and instrumentalities of the Federal Government and of State and local governments, persons, firms, institutions, and associations, with their consent and in such a manner as to avoid duplication of those services and facilities." (15 USC 290b)

Moreover, the statute governing one of the government's oldest and most respected information activities, the Census, allows for use of private sector products:

> (b) The Secretary may acquire, by purchase or otherwise, from States, counties, cities, or other units of government, or their instrumentalities, or from private persons and agencies, such copies of records, reports, and other material as may be required for the efficient and economical conduct of the censuses and surveys provided for in this title.
>
> (c) To the maximum extent possible and consistent with the kind, timeliness, quality and scope of the statistics required, the Secretary shall acquire and use information available from any source referred to in subsection (a) or (b) of this section instead of conducting direct inquiries. (13 USC 6)

The Justice Department provides an example of where the absence of such an approach resulted in a large investment of tax dollars to build and operate an information system that was essentially available off the shelf from the private sector. In fact, the system, the JURIS legal research system was identified in OIRA's 1982 Annual Report under the Paperwork Reduction Act as an example of "indirect competition with the private sector or exclusion of the private sector from participation in the market." JURIS was developed despite strenuous expressions of concern by Mead Data Central, Inc., the producer of the LEXIS legal research system. In a 1979 report prepared for the Department of Justice by Coopers & Lybrand, it was estimated that LEXIS would cost less than JURIS for each of the next four years. A subsequent study prepared by Touche Ross & Co. for Mead and using updated, reduced price figures for LEXIS, showed an additional savings of $1.8 million. (It should also be noted that not only did prices decline, the extent of services expanded including access to full text current information and interconnection to the scores of databases provided by Dialog Information Services.)

The logic behind such savings is obvious. If the government develops its own information service, it has to pay for the complete development and equipment costs as well as the operational costs for its use of the system. If it obtains a similar service from a private sector source, it shares the development and equipment costs with all the other users; additionally, its operational costs may decrease because of economies of scale possible with a large user population. OMB policy in this area should require an agency to ascertain that no private sector facility exists which provides the necessary information products or services before that agency can commit funds to develop the product or service itself.

Circular on Dissemination

Many of our concerns about government competition with the private sector were articulated in a prior submission to OMB concerning a proposed circular which focused precisely on the role of the government in the management and dissemination of federal information. This proposed circular (which appeared earlier as a proposed bulletin in July, 1978) was published in the Federal Register in June, 1980. While we submitted comments that we felt would further strengthen the circular, we were generally pleased with the statement. According to our July 25, 1980 letter, "this policy is well stated and clearly addresses the concerns of those dealing with government information products and services. It recognizes the need for the widest possible availability of government information. It is a clear statement of some of the ecomomic realities of information dissemination. And it expresses the philosophy of relying on private sector capabilities in the area of information management and dissemination." We regretted very much that this proposed circular received no further attention after the comment period. It was a statement of policy that is very sorely needed, and, in light of the subsequent enactment of the Paperwork Reduction Act, is clearly within the authority of OMB to promulgate. We would strongly urge that this proposed Circular be reexamined and promulgated with the modifications suggested in our comments that would make more explicit the need for full consideration of private sector mechanisms for meeting government dissemination requirements. Alternatively, the provisions of this proposed circular could be included in any new policy document that may emerge from OMB's current activity. (A copy of the 1980 OMB notice and the IIA comments are included in the Appendix.)

Effects of competition on the marketplace

We recognize that OMB, despite the lack of action on the proposed Circular, has continued to address the issue of government competition in the provision of information products and services. In Director Stockman's memo of September 11, 1981, and in the 1982 and 1983 annual reports required by the Paperwork Reduction Act, OMB has made it clear that it is sensitive to the problem. However, none of these statements has any "force of law" behind them, and in the absence of precise policy, agencies are still able to engage in information activities that have a deleterious effect on the marketplace.

We are not concerned with marketplace implications of government activity strictly as a hypothetical problem. Over the years, the industry has dealt with a number of government initiatives that posed serious threats to IIA member companies. In some cases we were able to have some effect and to redirect the government program in a way less harmful to the private sector, but we have not always been successful. We believe it would be helpful for OMB to have examples of government competition of all types. The following is by no means exhaustive but it gives an indication of some of the problems. Moreover, we readily acknowledge that each example was far more complex, with its own degree of subtlety, and that a brief description cannot adequately convey the full implications of any of these examples:

> When the Government Printing Office began to distribute free microform as an alternative to paper documents to government depository libraries, the first set of titles offered was one that had already been placed on the market by a private sector firm, Congressional Information Service.
>
> The Commerce Department offered the Commerce Information Retrieval Service (CIRS), an online search service of private sector databases, which competed directly with information brokers, or retailers. Not only were prices set unrealistically low, the search personnel were comparatively ill-trained: their relatively non-productive search results left first time clients with a negative perception of the value of private online databases.
>
> The Commerce Department also proposed to develop a Worldwide Information and Trade System (WITS) which would have offered on a global computer network a vast array of international business information, the overwhelming majority of which was already available from private sector sources.
>
> The Bureau of Labor Statistics, in responding to legitimate and reasonable requests that it use electronic technology to distribute the current economic statistics it traditionally published in news release form, proposed a major information processing service that would have allowed non-government users to process their data on government provided computers.
>
> The Office of Federal Register, after raising the price of the daily paper copy of the Federal Register to a level which recovered the marginal cost of its printing and distribution, initiated the daily production of a microform edition at a price about 40% less than the paper copy; this new format was authorized despite the existence of a half dozen private sector publishers of the Federal Register in microfilm, including one, Capitol Services, Inc., which published a daily microfiche edition.
>
> The National Technical Information Service began the Journal Article Copy Service, a document delivery operation that provided photocopies not only of government produced information, but also private sector journal items.
>
> After announcing that it would not be able to produce a certain file based on the 1980 Census, and after a private sector company (Donnelly Marketing) announced it would make the necessary investment to produce the file, the Census Bureau reversed its decision; it did this even though the private sector company agreed to make its file available to the Census Bureau and the entire federal government at no cost.
>
> The Census Bureau also announced that it was not going to produce certain software that could be used to process Census data. A private sector firm (DUALabs) was established to create the software, but as its product was coming to market, the Census Bureau again reversed itself and made the software available. The private sector firm went out of business.
>
> The National Library of Medicine developed a database of bibliographic records predominantly based on journal articles published by the private sector, and for six years it charged all users a maximum fee of $15 an hour, far below the prices private sector vendors would have to charge for the

> same product. This charge was recently increased to a maximum of $22 an hour which, it is claimed, recovers the cost of accessing the system, but does not recover any of the costs of creating the information.
>
> The National Library of Medicine also created a software package, the Integrated Library System, which competes with the products of at least two private sector companies (Warner-Eddison Associates and Comstow Information Services). It is alleged that NLM personnel approached Comstow as potential purchasers of library software, and after they received detailed information on the software's functionality, similar design features were incorporated in ILS.

In our opinion, no aspect of your current effort deserves more attention than the development of means of minimizing the negative effects of government in the marketplace of information products and services. Certainly, a policy similar to that contained in the 1980 proposed circular on dissemination would be a major step in the right direction. An even better approach might be the proposal for legislative remedy, an action that is entirely consistent with OMB's responsibility under Section 3504(b)(2).

The need for OMB and Congress to look critically at this issue is spurred both by the technological developments that lead to an increasing amount of information in electronic form and by the marketplace developments that have given us an increasing number of entrepreneurs who are willing to take the necessary risks to make more and better information products and services available to the American public and the world marketplace as well. There is little to indicate that Congress has addressed these developments and their implications even in the consideration of the Paperwork Reduction legislation.

Congressional precedents

However, there is some Congressional precedent for attention to the implications of government activity in the information area, and, surprisingly, it took place more than 30 years ago. In establishing the international information activities of the U.S. Information Agency, the following language was adopted by the Congress:

> In carrying out the provisions of this Act it shall be the duty of the Secretary to utilize, to the maximum extent practicable, the services and facilities of private agencies, including existing American press, publishing, radio, motion picture, and other agencies, through contractual arrangements or otherwise. It is the intent of Congress that the Secretary shall encourage participation in carrying out the purposes of this Act by the maximum number of different private agencies in each field consistent with the present or potential market for their services in each country. (22 USC 1437)

> In authorizing international information activities under this Act, it is the sense of the Congress (1) that the Secretary shall reduce such Government information activities whenever private information dissemination is found to be adequate: (2) that nothing in this Act shall be construed to give the Department a monopoly in the production or sponsorship on the air of short-wave broadcasting programs, or a monopoly in any other medium of information. (22 USC 1462)

Even in the floor debate in the House of Representatives, these provisions were singled out for special attention. (Cong. Rec., June 6, 1947, p6550) One additional feature of the statute as enacted in 1948, was the provision for advisory mechanisms for private sector input. According to the bill's sponsor, Rep. Karl Mundt, "We provide specifically here that the State Department shall -- again please note this is a directive not a suggestion -- invite in outstanding private leaders in cultural and informational fields to review and extend advice on the Government's international information activities." (The actual advisory bodies created in 1948 were eventually replaced or restructured by legislative and executive reorganization activities in the 60s and 70s.)

Admittedly, this statute, which was signed by President Truman on January 27, 1948, is narrow in its applications. First of all, it deals with international information activities. Secondly, it precedes so much of the development of information activities by the government that are of concern to our industry. Nevertheless, it contains a number of points that merit attention and emulation:

- a reliance on the private sector;
- the use of alternatives to contracts;
- a conscious effort to employ multiple providers of information;
- a recognition of market potential as well as its present characteristics;
- a need for reduction of government activities as private sector capabilities expand ("sunset");
- an avoidance of government monopoly in the information area; and
- a recognition of the value of private sector advisory mechanisms.

These same principles, ironically, re-emerged as Congress and the Executive struggled in the early 80s over defining appropriate roles for the public and private sectors in the information area. Specifically, after extended negotiations between the Information Industry Association and the Department of Commerce about the Worldwide Information and Trade System (WITS), the Department agreed to a resolution of the problem that contained many of these same principles. The Senate Appropriations Committee took note of these provisions in its report accompanying the appropriations bill for FY1981 funding of the Commerce Department:

> The objective of WITS is to help increase U.S. exports. The Committee intends that this objective be accomplished in a manner which utilizes to the maximum extent possible existing private sector data bases and other information services and does not duplicate or compete with them.
>
> The Committee heard testimony from information industry witnesses indicating that the WITS development plans have not complied with the Congressional intent, contained in the FY 1980 Appropriations Report, to avoid competition with, or duplication of, private sector information services.
>
> The Committee endorses the Department's recent commitment to comply with this intent by: (1) issuing a Request for Information (RFI) which will identify existing private sector export information services; (2) redesigning WITS to build on such services; (3) establishing an objective advisory panel to review the redesign for compliance with the Congressional intent; and (4) conducting "sunset reviews" of government data bases developed for WITS. (Senate Report 96-949, September 16, 1980)

Executive branch consideration of government competition

At the same time, mindful of the difficulties that had arisen between the private sector information industry and the Department in the WITS conflict, the Commerce Department began to develop guidelines that could apply generically to all Department information activities. (The full text of the guidelines appears in the Appendix.) Among the points included were:

- Early notice of program changes;
- Systematic determination of dissemination strategy;
- Systematic review of private capabilities;
- Team action within the Department;
- Private sector advisory participation;
- Sunset review.

While personnel changes at the Department of Commerce resulted in a suspension of further steps to implement these guidelines, we bring them to the attention of OMB because we believe they would serve as an example for procedural steps you might wish to include in addressing the issue of government competition.

During the development of the Department of Commerce approach, the National Commission on Libraries and Information Science (NCLIS) Public Sector/Private Sector

Task Force was beginning its two-year study of the interactions between government and private sector information activities. The Task Force was briefed on the developments in the WITS project. When it issued its Report (February 1, 1982), many of the same principles were included in its "principles and recommendations." (This report represents a major effort to examine and understand many aspects of the problem of government competition. While not perfect, it is a significant document which we hope that OMB will consider in its current effort to develop a policy circular on federal information management. We understand a copy of the report has been provided to OMB.)

The principles and recommendations most pertinent to the issue of competition, and which echo the same themes first noted in the 1948 statute, are as follows:

> Principle 1. The Federal government should take a leadership role in creating a framework that would facilitate the development and foster the use of information products and services.
>
> > Recommendation #1. Provide an environment that will enhance the competitive forces of the private sector, so that the market mechanisms can be effective in allocating resources in the use of information and in directing innovation into market determined areas.
>
> Principle 2. The Federal government should establish and enforce policies and procedures that encourage, and do not discourage, investment by the private sector in the development and use of information products and services.
>
> Principle 3. The Federal government should not provide information products and services in commerce except when there are compelling reasons to do so, and then only when it protects the private sector's every opportunity to assume the function(s) commercially.
>
> > Recommendation #19. Announce intentions sufficiently ahead of time to provide an opportunity for private sector involvement when a government agency, for reasons it regards as compelling, should plan to develop and/or to market an information product or service.
> >
> > Recommendation #20. Review and approve, before implementation, any plans for the government to develop and/or market an information product, the review to be carried out by an agency appropriate to the branch of the government (such as OMB, GAO, CBO).
> >
> > Recommendation #22. Review periodically to evaluate the desirability of continuation of any information product or service as a governmental activity.

Before concluding our remarks, we would acknowledge the difficulty of drawing boundaries between permissible government information activities and those that should be performed by the private sector. We believe a recent action by the National Science Foundation may be useful to OMB in addressing this particular problem. In a Request for Comments (which ultimately led to the establishment of policy) appearing in the Federal Register (Oct. 7, 1982, page 44448), NSF explored the issue of grant recipients's "using

NSF-supported research instrumentation or facilities to perform research or services for commercial organizations in direct competition with private companies that provide equivalent research services." It was pointed out that such activity should not be performed under general circumstances; however, it also noted that there were exceptions. The discussion that underpinned this policy may be helpful to OMB in considering the parallel question regarding government provision of information products and services in direct competition with the private sector:

> NSF expects certain rules of reason to apply in matters subject to the present principles. . . . A long series of examples attempting to establish threshholds will be unlikely to satisfy any of the parties at interest because of the infinite number of cases that can be postulated to fall between the examples. Further, in such circumstances, efforts to state absolute rules can nearly always be reduced to an absurdity by an example to show how the rules prevent a common sense solution. . . . The overriding question is that of impact on existing commercial markets. This needs to be considered by an institution on a case-by-case basis and also on a cumulative effect basis. A series of individual cases that taken singly would have little or no impact may cumulate to have substantial impact for commercial suppliers of comparable services.
>
> The rule of reason is not intended to provide a rationale for small individual actions that cumulate to invade or preempt the markets of the research community in the commercial sector.

It is also instructive to note that "NSF does not expect that such determinations be submitted to it for consideration or approval. NSF will not entertain challenges or protests on individual cases." Instead, it indicated its expectation that institutions will "provide a procedure for addressing questions or challenges concerning uniqueness." OMB might also wish to minimize its role as an "adjudicator" in any disputes between government agencies and affected private sector information companies, and instead require some means of dispute resolution at the agency level.

Specific elements of a guiding policy

Any information management policy issued by OMB should begin with the premise of relying on the private sector for the distribution of most government information. We earlier made reference to our policy statement on public and private sector roles which appears in full in the Appendix. We will conclude our comments on the subject of government competition with the "specific elements of a guiding policy relating to public sector or private sector information competition" appearing in our policy statement:

> 1. Government should not develop and disseminate new information products or services that compete with those already available from or planned by, or which could be provided by, private sector sources. Nor should new formats for existing government information products or

services be developed by government when private sector sources are equipped to offer or are already offering such formats. Government information products or services currently being offered should be carefully reviewed periodically to make sure that continued production and dissemination serve a need that still exists and that is not being met or cannot be readily met by private sector sources and are done in a manner that diminishes potential "competition" with the private sector.

2. Where there is a genuine, demonstrable and critical need for an information product or service not currently provided (or likely to be provided) by the private sector, government should take the following steps in order of priority:

> First, encourage the private sector to meet the need;
> Second, provide secondary inducements for the private sector to meet the need through such mechanisms as subsidies, loans, grants, tax credits, etc.;
> Third, if the private sector cannot fulfill a demonstrable and significant information need, contract out to the private sector the development of the needed product or service;
> Fourth, when as a last resort to meet the need the government does produce such an information product or service, make it available in a way and at a price that diminishes potential "competition" with the private sector. That price should, with rare exceptions, be sufficient to recover all costs incurred in the development, production and dissemination of the particular information product.

3. All information products or services provided by government should be reviewed periodically in the light of expanding private sector capabilities with a view toward, wherever possible, encouraging the private sector to meet information needs by becoming involved in the production and distribution of such products and services.

In our examination of this issue, we have prepared a draft circular that would put into effect the principles espoused in our policy statement. We have provided a copy of this draft for your consideration in the Appendix.

USER CHARGES FOR INFORMATION PRODUCTS AND SERVICES

Closely related to the question of competition is the question of pricing. What follows is an examination of the role of pricing in the information marketplace, but we think it is necessary to stress again that the fundamental position of the Information Industry Association generally argues against the government offering commercial information products and services. In such a context, the need for a discussion of pricing is nonexistent. However, we do acknowledge in our policy statement that there may be circumstances in which, "as a last resort," such products and services may be offered. In these situations, prices should be set carefully to diminish potential "competition" with the private sector.

Economics of information

In the traditional marketplace, prices act as signals for economic transactions, both buying and selling, as well as investing in future productive capacity. If -- for whatever reason -- the government is in the information marketplace, the prices it charges will provide signals both to potential customers and to private sector entrepreneurs who may wish to invest in a similar type of information activity. If government prices are set artificially low, the government will tend to become a monopolist and drive all competitors out of business, or at least into other businesses.

Unfortunately, there has not been a great deal of attention paid to the economics of information. Pierre J. Vinken, chairman of a major worldwide publishing and information company headquartered in The Netherlands, and formerly chairman of the European Information Providers Association (a European counterpart to IIA), discussed this lack of attention in a lecture in June 1982.

> Economic theory states, that, given a free market, the laws of supply and demand will set the price levels of a product or a resource. Information is a resource in much the same way as food and energy are resources. But, unfortunately, there is confusion and muddled thinking when it comes to applying economic principles to information. A school of thought exists that says there are striking differences between this commodity and what they claim are the more conventional products. My view is precisely the opposite, namely that the exact same laws of supply and demand do apply. Let us examine these two approaches in more detail.
>
> The "non-economic" school of thought says that information is not scarce. On the contrary, it is claimed to be available in abundance. It is also claimed that it does not disappear or deteriorate. Information cannot be consumed, so they say. In fact, because the consumption or use of information generates in its turn new information, it is alleged that usage increases its value. Of all the processes, it is only information that does not obey the inflexible economic laws of conservation and decay. The argument continues in that everyone can get as much information as he wants and the more it is needed, the easier it is to obtain. Thus the problem with this commodity, it would seem from these arguments, is not so much how we must master and optimize its scarcity value, but how we must cope with its abundance.
>
> If all of this were true, one certainly would not regard information as an economic resource or the communication methods for its transmission as subject to economic laws. Economics are based on the principle that every resource people want has a scarcity value and this, in turn, determines its economic value. If, as the non-economic school suggests, information were available in abundance, it would have no value and thus would not be an economic resource in the accepted sense of the word.
>
> Looking at the counter argument, the reverse is true. This approach to which I subscribe, states that there is no doubt that information as a resource obeys the fundamental economic laws and that information is of great value. Agreed, information does exist in abundance, but that is not what gives it its value. Its value is determined by such factors as structure and depth, or to put it another way, by its relevance. . . .

> But why is it necessary to convince you of this connection between information and economics? One reason, I believe, is that there has been little study of information within an economic science framework. This is partly due to the fact that we are not used to applying economic terms or theories to abstract, intangible products. Information is transitory in nature, sometimes even volatile. Unlike other commodities, it exists in numerous forms and in varying degrees of correctness, detail, timeliness, specific content, universality, durability, and quality. It is heterogeneous in nature: it is difficult to divide information in clearly separate units of equal or comparable value. How can one say that a book for which one paid £8.50 is or is not worth it because it happens to contain 16 ideas which you only rate as worth 20 pence a time. This problem of products containing multiple items which cannot be separeted out is in some way analogous with transport. The price of a railway ticket is not counted by the number of stations through which you pass, but on the length, comfort and speed of the whole journey.

We suggest that OMB, in keeping with its authority under Sec. 3504(b)(6), that is, "overseeing planning for, and conduct of research with respect to, Federal collection, processing, storage, transmission, and use of information," should pay greater attention to the economics of information. And in so doing, OMB would become better equipped to establish the pricing policies for government information activities.

Statutory basis for user fees

The general requirement for implementing user fees comes from 31 USC 9701, which was codified with the enactment of P.L. 97-258, September 13, 1982, but was previously codified as 31 USC 483a and was originally enacted as Title V of the Independent Offices Appropriation Act of 1952. According to Section 4 of P.L. 97-258, the restatement "may not be construed as making a substantive change in the laws replaced." This provision is sometimes referred to as the User Fee statute; the text of this provision as originally enacted and as restated appears in the Appendix. Information products and services are clearly meant to be included in the term "service or thing of value" which, as originally enacted, included "work, service, publication, report document, . . . or similar thing of value or utility performed, furnished, provided, granted, prepared or issued by any Federal agency. . . ."

OMB policy regarding user fees is contained in Circular A-25 (September 23, 1959), which according to the Solicitation of Public Comment is also in the process of revision. Circular A-25 does not specifically address information products and services. There is a differentiation between "special services" and "resources or property." In the former case, "the maximum fee for a special service will be governed by its total cost and not by the value of the service to the recipient." The user fee policy is much broader in the latter:

> Where federally owned resources or property are leased or sold, a fair market value should be obtained. Charges are to be determined by the application of sound business management principles, and so far as practicable and feasible in accordance with comparable commercial practices. Charges need not be limited to the recovery of costs; they may produce net revenues to the Government. (Para. 3 b.)

We are not familiar with the underlying rationale for the differentiation between special services and resources or property. Nor do we find any Congressional guidance in the User Fee statute for this distinction. Information activities can arguably be included in either category. It is our belief that the Paperwork Reduction Act implicitly recognized information as a resource when it assigned OIRA the function of "developing and establishing uniform information resources management policies." Current legislation, H.R. 2718, amending the Paperwork Reduction Act, which at this point has been passed by the House of Representatives, makes this point explicit. House Report 98-147, in describing the contribution of the Commission on Federal Paperwork to the development of the legislation, states, "The Commission pointed out that information should be considered as a valuable resource and not treated as a free good." OMB, in its revision of A-25, should explicitly define how user fees are to be set in terms of information products and services, or exclude information products and services, and let the proposed circular on information management address such matters.

Generally, we believe that the requirements of Circular A-25 as currently stated are appropriate and lead to a rationalization of the information marketplace that is in the interests of the government, the citizens and our industry. We indicated earlier our fundamental position that many government information activities are simply inappropriate and that their presence inhibits the creation and expansion of similar private sector products and services. We further indicated, however, that when such activities nevertheless exist, a price which diminishes potential competition with the private sector should be set. According to our policy statement, "that price should, with rare exceptions, be sufficient to recover all costs incurred in the development, production and dissemination of the particular information product."

Congress demonstrated its understanding of the effect pricing has on competition explicitly in the Monetary Control Act of 1980 which required the Federal Reserve Board to establish pricing principles and a schedule of fees for a number of banking services, including information related activities such as automated clearinghouse services. One section specifically identified costs that the government entity should include in setting its prices:

> Over the long run, fees shall be established on the basis of all direct and indirect costs actually incurred in providing the Federal Reserve services priced, including interest on items credited prior to actual collection, overhead, and an allocation of imputed costs which takes into account the taxes that would have been paid and the return on capital that would have been provided had the services been furnished by a private business firm, except that the pricing principles shall give due regard to competitive factors and the provision of an adequate level of such services nationwide. (12 USC 248a(c)(3)) (Emphasis added.)

It is instructive to note that Congress has dealt with the question of fees for information services in a number of situations over the years. There is little consistency among the various legislative vehicles establishing federal information activities, yet a brief review of some of these statutes will demonstrate a general desire on the part of Congress to recover some to all of the costs the government incurs in making information available.

The statute authorizing the Government Printing Office, enacted in 1895 and now contained in Chapters 1 through 19 of Title 44, provides authority for charging for publications sold: "The price at which additional copies of Government publications are offered for sale to the public by the Superintendent of Documents shall be based on the cost as determined by the Public Printer plus 50 percent." (44 USC 1708) Sale of intermediate products in the printing process are also authorized: "The Public Printer shall sell, under regulations of the Joint Committee on Printing to persons who may apply, additional or duplicate stereotype or electrotype plates from which a Government publication is printed, at a price not to exceed the cost of composition, the metal, and making to the Government, plus 10 per centum, and the full amount of the price shall be paid when the order is filed." (44 USC 505)

The National Archives authorization, Chapter 21 of Title 44, allows the Administrator of General Services to "charge a fee not in excess of 10 percent above the costs or expenses for making or authenticating copies or reproductions of materials transferred to his custody." (44 USC 2112(c))

The Act of March 3, 1901, establishing the National Standardizing Bureau (now the National Bureau of Standards) contained language (Sec. 8) which read "For all comparisons, calibrations, tests, or investigations, except those performed for the Government of the United States, a reasonable fee shall be charged, according to a schedule submitted by the director and approved by the Secretary of the Treasury." Moreover, in House Report No. 1452 (56th Congress, 1st Session, May 14, 1900) accompanying this legislation, the Committee on Coinage, Weights, and Measures stated its belief "that the expenses of maintaining this institution, if properly administered, will be largely repaid by fees resulting from its work." In 1932, Sec. 8 was amended and new language required that "a fee sufficient in each case to compensate the National Bureau of Standards for the entire cost of the services rendered shall be charged" to non-government recipients of NBS services. The present fee language, adopted by Congress in 1956 and codified as 15 USC 275a states that "The Secretary shall charge for services performed under the authority of section 3 of this Act, except in cases where he determines that the interest of the Government would be best served by waiving the charge. Such charges may be based upon fixed prices or cost."

The Bureau of Labor Statistics, established in 1888, was given the authority to perform information services for the public in legislation enacted in 1934. The relevant section, 29 USC 9, states "The Department of Labor is authorized, within the discretion of the Secretary of Labor, upon the written request of any person, to make special statistical studies relating to employment, hours of work, wages and other conditions of employment; to prepare from its records special statistical compilations; and to furnish transcripts of its studies, tables, and other records, upon the payment of the actual cost of such work by the person requesting it."

The National Technical Information Service, established in 1970, is authorized by legislation enacted September 9, 1950. (15 USC 1151-1157) The language dealing with fees (Sec. 1153) is quite explicit, and vaguely reminiscent of the User Fee Statute which was included in the FY 1952 Independent Offices Appropriations Act, enacted just nine days earlier: "The Secretary is authorized . . . to establish, from time to time, a schedule or schedules of reasonable fees or charges for services performed or for documents or other publications furnished under this Act. It is the policy of this Act, to the fullest extent feasible and consistent with the objectives of this Act, that each of the services and functions provided herein shall be self-sustaining or self liquidating and that the general public shall not bear the cost of publications and other services which are for the special use and benefit of private groups and individuals; but nothing herein shall be construed to require the levying of fees or charges for services performed or publications furnished to any agency or instrumentality of the Federal Government, or for publications which are distributed pursuant to reciprocal arrangements for the exchange of information or which are otherwise issued primarily for the general benefit of the public."

The National Library of Medicine Act, enacted August 3, 1956, created the National Library of Medicine to which was transferred the 120-year old Armed Forces Medical Library. The issue of fees is treated in 42 USC 276(c): "The Secretary is authorized, after obtaining the advice and recommendations of the Board (established under section 383), to prescribe the rules under which the Library will provide copies of its publications or materials, or will make available its facilities for research or bibliographic, reference, or other services to public and private agencies and organizations, institutions, and individuals. Such rules may provide for making available such publications, materials, facilities, or services (1) without charge as a public service, or (2) upon a loan, exchange, or charge basis, or (3) in appropriate circumstances, under contract arrangements made with a public or other nonprofit agency, organization, or institution." In the accompanying Senate Report No. 2071 (84th Congress, 2d Session, May 24, 1956) from the Labor and Public Welfare Committee, the charge provisions of the legislation were explained: The language authorizes the Secretary

> . . . to prescribe rules, which among other things, will permit the making of a charge to nonpublic agencies, organizations, institutions, or individuals for providing copies of the Library's publications or materials, making available to facilities for research, or furnishing bibliographic, reference, or other services of the Library. The committee expects, insofar as feasible and taking into account accepted library practice, that such charges will be levied when the services to be rendered or the materials or facilities to be made available are other than routine and obviously and clearly convey a special, identifiable, added benefit to such nonpublic agency, organization, institution, or individual, and that such charges will be reasonable in the light of the cost and the limited usefulness to the public of the particular materials, facilities, or services involved.

Perhaps one of the most deliberate Congressional examinations of information policy and related user fee issues occurred with the enactment of the Standard Reference Data Act (July 11, 1968, P.L. 90-396, 15 USC 290-290f). This legislation empowers the Secretary of Commerce "to provide or arrange for the collection, compilation, critical evaluation, publication, and dissemination" of "quantitative information, related to a measurable physical or chemical property of a substance. . . ." Section 290d addresses the user fee issue: "Standard reference data conforming to standards established by the Secretary may be made available and sold by the Secretary or by a person or agency designated by him. To the extent practicable and appropriate, the prices established for such data may reflect the cost of collection, compilation, evaluation, publication, and dissemination of the data, including administrative expenses. . . ." Both the House and Senate Reports accompanying this legislation stress the need for recovering costs through user charges. The House Report No. 260 (90th Congress, 1st Session, May 15, 1967) is most illuminating in its recognition of the function of pricing as a marketplace determinant. The Committee postulated three reasons that cost recovery should not be required, and in rebutting one of these, it demonstrated a sensitive grasp of the workings of the information marketplace.

> Third, as to the data being priced out of the reach of younger scientists and engineers, the Bureau of Standards estimates that approximately one-half of the users of standard reference data would be individual, as opposed to institutional, purchasers. Representatives of the publishing industry who have had considerably more experience marketing this type of technical publication, estimate that the purchasers of standard reference data would be almost entirely institutional purchasers. Consequently, if support is necessary, it would appear more desirable to aid the low-ability purchaser, when and if needed, rather than lowering the price for all purchasers down to the level which the poorest purchaser could afford. Also, it must be recognized that even as to those individual scientists and engineers who purchase data for their work or business, the purchase price of the document would be a deductible business expense under the Internal Revenue Code.
>
> Finally, the use of reasonable user charges serves as an indication of the value of the services performed. The willingness of the user to pay for the data can be helpful in determining its real value to the scientific community, and by indicating those areas which should receive greater or less emphasis (Emphasis added).

These examples, which span nearly a full century, indicate a number of points. Congress has indicated a sensitivity to the effect pricing has on the preservation of private sector capabilities. However, it has never established a comprehensive and uniform policy with regard to the pricing of government information. With slight exception, user fee policies set by Congress recover the full cost and in a number of cases an additional percentage, but little attention has been paid to defining "cost."

Definition of "cost"

We would recommend that OMB very carefully develop a definition of "cost" that fully recognizes all the component activities that comprise the provision of an information product or service. In the Budget Reconciliation Act of 1981, the U.S. Senate adopted language that we would recommend for your consideration. (It should be pointed out that similar language was not included in the House version of the Act, and the Conference Committee subsequently deleted this language.)

> The term "full cost" includes the direct and indirect costs (including overhead), applying generally accepted cost accounting principles to the United States, associated with --

(i) the administrative and intellectual preparation of information products;
(ii) the creation and maintenance of systems for the storage, retrieval and dissemination of these products;
(iii) the storage and retrieval of these products; and
(iv) the dissemination of these products.

(This section of the legislation dealt with the National Library of Medicine and it describes information products as "including catalogs, indexes, abstracts, citations, bibliographies, or associated document delivery.")

This Senate Act, although it never became law, is also instructive in its method of addressing special constitutencies' needs. It allows certain classes of users (non-profit organizations, government agencies, and certain international and foreign entities) to be exempted from the requirement of paying a full-cost recovery. We would recommend that OMB take such an approach in its policymaking regarding user fees for information; we would further encourage you to incorporate the policy contained in the Standard Reference Data law, i.e., aid low-ability purchasers, rather than allowing a lowering of prices for all purchasers to the level which the poorest purchaser can afford.

INTERAGENCY SHARING OF DATA PROCESSING FACILITIES; ACCESS TO ALTERNATIVE FACILITIES

We recognize that the topic of shared facilities is more one of internal management than one which principally concerns private industry. However, we wish to make it clear that any policy concerning sharing should respect the proprietary rights of vendors of information. Specifically, if information (for example, a database on magnetic tape) is purchased by one agency, that agency, normally, should not be allowed to reproduce that tape and share it with other agencies within the Federal government. Usually, this matter will be subject to contract negotiations between the vendor and purchaser.

While this approach might appear to be an avaricious stance for the industry to take, it is, in fact, simply a reasonable position reflective of information marketplace realities. As pointed out above, in conjunction with our discussion of OMB Circular A-76, purchase from a private sector vendor allows a number of purchasers to share pro rata portions of the development and equipment costs of the product or service. A vendor, in establishing the price for his offering, estimates how many purchasers there will be over which to spread these costs. If his market includes the Federal government, he must make estimates as to the overall number of government purchasers. Unauthorized reproduction and sharing within the government will obviously invalidate this estimate and could lead to financial losses on the part of the vendor.

Of course, many vendors would be willing to establish a price to the government that would allow government-wide use of the information product, just as is often done with major corporations having multiple operating sites. OMB policy should also recognize this eventuality and designate some entity, perhaps the General Services Administration, to serve as a point of contact for such arrangements.

LONG RANGE PLANNING PROCESS

In the example of the Department of Commerce Worldwide Information & Trade System cited earlier, we described a number of features of the proposed resolution of that controversy, including two which OMB should consider in developing policy concerning the planning process. Again, planning is an issue which is of principal concern within the government, but when plans may lead to actions that will have an effect on the information marketplace, we believe these two features are important.

First, an agency must have a means of providing an early indication of its intention to develop an information product or service that may affect the commercial marketplace. We believe any planning process for such activities should include a requirement for public notice of the intention. This step would allow information businesses to adjust their own planning accordingly. Many of these businesses are small and cannot afford the losses that a surprise announcement of a new, competitive, government information activity might bring about. Also, knowledge of upcoming needs of the government may lead information companies to share their own confidential planning data about new products, not yet released to the market, that may fully satisfy the information needs the government was planning to address.

Our draft circular in the Appendix contains a provision for such early notice. Also, OMB should require agencies in their annual budget submission to identify the level of both existing and proposed information services. We have enclosed in the Appendix a proposed modification to OMB Circular A-11, which would require such notification.

The second feature of the WITS resolution, although never fully implemented in that case, was the creation of an advisory body of some sort, that would reflect the views of both vendors and users of the type of information the government was proposing to produce or provide. OMB may wish to provide guidance to agencies concerning the establishment of such advisory mechanisms, either at the agency level (most likely in conjunction with the office of the designated senior official called for by Section 3506(b) of the Paperwork Reduction Act), or at the interagency level (perhaps in conjunction with the Cabinet Council concept).

MAINTENANCE OF RECORDS ABOUT INDIVIDUALS

We do not have detailed comments in this area, but rather would like to make one point with regard to mailing lists maintained by agencies. We recognize and support the privacy considerations under which the Federal government operates. We are concerned though that some actions taken in the name of privacy may really have the effect of anticompetitive behavior in the information marketplace.

Specifically, we are referring to mailing lists of those who have purchased information products and services from the government. For example, when the Federal Register daily microfiche edition was started by the government, one of the first steps taken by GPO was the mailing of an announcement about the product to all current subscribers to the paper edition of the Federal Register. (This was followed by display ads for the new product on the back cover of the paper product.) Those private sector firms which offer enhanced information products to improve the use and retention of government information, such as companies offering indexes to or microform versions of the Federal Register, are not afforded this same access to their market.

We recognize it would not be in the interests of users of government to ask that OMB policy forbid the use of mailing lists within the government to advertise information products. Indeed it is because of our sensitivity to the needs of users that we ask that provisions be made for government agencies to make available, at full cost recovery, such mailing lists to private sector vendors. Adequate provisions could be made for identifying and holding back the names of those individuals who do not wish their names released; this practice takes place in the commercial mailing list business all the time. We are convinced that the vast majority of users of government information would welcome the opportunity to learn about the many products of the information industry that would facilitate their use of government information.

GOVERNMENT PRINTING OFFICE

Although not identified in your Solicitation of Public Comments, we believe some attention must be focused on the Government Printing Office. This agency is one of the important and active agencies providing information products and services to the American public. Because of historical accident rather than rational public policy, the agency that provides a major portion of all executive branch printing is located in the legislative branch, and moreover, the regulations of the U.S. Congress Joint Committee on Printing, which are put into effect with no requirement for compliance with the Administrative Procedures Act, control the printing and binding activities of the vast majority of executive and judicial agencies.

Our industry was deeply involved in the unsuccessful attempts of the 96th Congress to revise those chapters of Title 44 that deal with public printing and distribution. Rather than repeat the concerns we raised in that context, we are including in the Appendix a copy of our statement on the issues involved. We strongly supported the provision of H.R. 5424 that would have created a successor to GPO in the executive branch.

We are concerned that present initiatives to revamp the JCP regulations may have the effect of broadening the authority and functions of JCP and GPO into information areas far beyond an appropriate sphere of responsibility for a legislative branch agency. The proposed new regulations have just recently been made available for public comment, and from a quick review it appears they may present serious concerns both to the industry and to OMB, the agency which is tasked with information resource management responsibilities under the Paperwork Reduction Act. It is our intention to analyze carefully and provide appropriate comments on these new regulations proposed by the Joint Committe on Printing. Because of the close relationship between that effort and the current OMB effort to develop information management policy, we will provide you a copy of our comments when they are prepared.

OTHER LEGISLATION

We believe that much of the legislation cited in our comments, dealing with agencies such as NTIS, NLM, NBS, Census, etc., should be reexamined in light of the development and capacities of a vigorous, private sector information capability.

The Paperwork Reduction Act gives OMB the function of "initiating and reviewing proposals for changes in legislation . . . to improve information practices." While it is not our intention to provide specific comments on this topic, we would strongly suggest that OMB take the initiative in this area. We would be glad to provide detailed comments in light of such an initiative.

CONCLUSION

The Office of Management and Budget is to be commended for its efforts in implementing its information policy functions under the Paperwork Reduction Act. The Information Industry Association is grateful for the opportunity to share its views on this subject, and we pledge our continued cooperation in this endeavor.

Information Industry Association
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[illegible]

May 14, 1985

Mr. J. Timothy Sprehe
Office of Information and Regulatory Affairs
Office of Management and Budget
New Executive Office Building
Room 3235
Washington, DC 20503

Dear Mr. Sprehe:

The Information Industry Association (IIA) is pleased to comment on the draft circular, "Management of Federal Information Resources" (50 Federal Register 10734). As you recall, the IIA responded at some length to OMB's last call for comments on the issues dealt with in the draft circular, in November 1983 (48 Federal Register 40964). Since, in our view, subsequent events have validated our approach, there is no need for us to repeat what we have already told you.

IIA heartily commends OMB for its thorough and far-sighted effort. Federal information policy has long been in need of sound basic principles, and OMB has supplied them. To be sure, doubtful specific cases may arise in the future which cannot reasonably be foreseen now. Where specific cases bring into tension the first principles which OMB has articulated, prudent judgment or further policy development will be needed. OMB should be ready to develop further policy directives if such are needed to provide sufficiently detailed guidance to agencies. This consideration, however, in no way minimizes the service OMB has performed in drawing up its blueprint for Federal information resources management.

We will concentrate our comments on the information dissemination part of the draft circular, which is our area of greatest expertise and interest. The IIA strongly supports OMB's directives to agencies to share or utilize existing resources rather than recreate them with tax dollars. Instances will arise where agencies can usefully share resources; clearly, however, the greater import of this section is that the government will rely, as it should, on private value-added vendors as the most effective, efficient channels to get government information to the various interested publics. Although the government enjoys certain advantages as an information collector, private enterprise has an undoubted comparative advantage over bureaucratic agencies in the dissemination function. The entrepreneurial spirit leads to superior performance in attuning products and services to users' needs through reformatting, recombining, and deriving new works — in all the different means of adding value.

In addition to achieving public purposes well, the new dissemination policy will be the best defense against unfair government competition with the private sector or, to use antitrust terms, predatory government behavior. The circular should have the welcome effect of keeping agencies out of lines of business where they need not be, or ought not be, in the first place. Given the complexities of pricing policy, the circular's emphasis on resource sharing is appropriate and necessary to carry out an intent that the government not compete unfairly.

We recognize that, in some instances, agencies will be carrying on their own dissemination activities in accordance with law. We also appreciate that OMB, in setting general policy, cannot prescribe specific prices. However, agencies should be informed unmistakably that prices can be either too low or too high. If an agency is not recovering all costs logically attributable to the dissemination activity, it is almost certainly depressing private investment in the field. Even if no private-sector service yet exists, the presence of the government as a subsidized, low price competitor will make entry prospects poor. Moreover, such a practice would tend to create, among users, an unfortunate price perception that the information were neither that costly nor that valuable. Private suppliers might never overcome this hurdle.

On the other hand, it would be unsound policy for agencies to attempt to recover more than their logically attributable costs. That is, agencies should not attempt to charge a price based on fair market value. The Federal Government is not, nor should it be, in the business of making a profit. Whenever the government attempts to set and maintain a price based on a value above cost, it is necessarily asserting an interest in the nature of a property right. Yet this is precisely what the public domain policy of the Copyright Act forbids (17 U.S.C. Section 105). Although the law may make specific exceptions, the general policy is well established. The overall intent should be clear: agencies will not compete unfairly either through predation or by acting as if they were proprietors of information developed at taxpayers' expense.

The language in Section 7.d. appears directed toward the same end, of forestalling unfair government competition. That "public and private benefits" must exceed "public and private costs" seems to embody a standard cost-benefit criterion. On that level, we would not take issue with the concept, although the exact wording is new to us and could possibly cause misunderstanding. If a cost-benefit criterion is to be applied in the printing context, IIA urges that a positive cost be imputed to delay in publication. Private publishers are often ready to bring agency texts to press faster than the Government Printing Office can or does. In any relevant calculation, the delay factor cannot be ignored.

Another change in language we suggest relates to the preamble: "Agencies create and collect much information...for which there is no public demand..." Again, we have no problem with the basic thought, but this exact wording could prove unhelpful. "No demand" is too categorical — someone can always come up with an anecdote, albeit isolated, to the contrary. We recommend "very limited public demand" instead.

In our view, an appropriate appendix to the draft circular must embody procedural means so that the well-conceived policies are carried out in fact. The circular's language must not be seen by agencies as merely hortatory. Our specific suggestion is that, before initiating any new dissemination program, an agency be required to follow standard administrative procedures of a formal notice, followed by a comment period. By so doing, the agency could inform itself of relevant existing private-sector offerings, service by service and feature by feature. The notice and comment procedure should also be applied to existing services or programs on a periodic basis. It could well be that an agency commenced a program in a justifiable way, but that the industry has developed to the point where the government should withdraw.

We understand that this proposal is essentially the same in form as some others have suggested for agencies to follow when considering dropping a publication, for example, for budgetary reasons. We recognize the value of this idea, especially since some IIA members rely on such government output of data as primary source material. At the same time, where a government service has been in existence, the actual circulation and revenue figures — usage, and, where a price is charged, demand data — speak louder than words. Of the two proposals, then, we would urge the comment period as more important in the case of the pending new government program where no such data exists.

The draft circular's treatment of electronic filing is brief. Although the circular could attempt greater detail and precision, we have concluded that the current approach is the best on balance at the present time. As agencies gain more experience, new questions may well emerge, and they can be dealt with as the need arises. However, the current language is quite economical and covers, by extension, the crucial point that public user fees are appropriate for electronic filing systems. Furthermore, the draft circular's caution to agencies to "...avoid problems arising from monopolistic control" is needed to insure the creation of a level playing field for outside value-added vendors. Other major policy questions, such as off-budget barter procurements and resale restrictions on primary purchasers, will have to be resolved through the appropriations process and substantive statutory authorization, respectively. The circular does well to leave these subjects aside and to state simply, as it does, that the same basic federal policies will apply to electronic filing as to paper-based dissemination. The IIA has been devoting considerable efforts to the development of policy on electronic filing, and we are always ready to work with OMB in this area.

The draft circular, when final, will become a landmark in the development of information policy. Our congratulations on a job well done.

Yours truly,

David Peyton

David Peyton
Director, Government Relations

Meeting Information Needs in the New Information Age

A Policy Statement

of the

Information Industry Association

INTRODUCTION

For its nearly 17 year history, the Information Industry Association has had an active effective government relations program, which has brought IIA members together to voice their opinion and make a difference.

Very often the issue that united us involved determining the appropriate roles for government and private sector interests in the provision of information products and services. Over the years, IIA has sought to curb the growth and avert the start of government information activities that we felt were more appropriately performed by the market driven private sector; we also strongly called for the use of private sector contractors to perform government information activities that the market would not support.

In 1983, it became obvious that IIA needed a basic statement of principle concerning the appropriate roles of the private and public sectors that sought to explain clearly why IIA was concerned about government information activities. A small task force spent countless hours summarizing the many philosophical arguments that the industry had developed over the years into a single document, a position paper that neatly captures the most important aspects of this issue. The paper was approved by our Public Policy & Government Relations Council and the IIA Board of Directors. It is now in its second printing.

I am pleased to provide a copy of this major statement for distribution to policy makers in the government and other interested people. We will continue to seek wide support in attempting to get the principles in the position paper incorporated into our national policy.

I want to express my heartfelt appreciation to all the IIA members who worked to make this statement a reality, not only those who participated in the drafting, but those whose tireless efforts over the past 17 years have breathed life into this fundamental statement of philosophy.

Paul G. Zurkowski
President

April, 1985

Meeting Information Needs in the New Information Age

The world has entered a new age, the age of information. Fostered by the explosive development of computer and communications technology, information is compiled, stored, processed and distributed in ways undreamed of a few years ago. The information revolution has replaced the industrial revolution as the moving force in transforming our world and reshaping our lives.

The ultimate impact of this revolution — the changes it creates in how we live, what we do, where we live, and how we relate to one another as individuals and as nations — can only be dimly perceived in this threshold period. Yet profound changes are taking place. If we manage them wisely, they should contribute in a major way to the economic, social and political betterment of the world in which we live. Important in themselves, these changes in information capability may be even more important to society through the multiplier effect they will have on progress in countless other fields of human endeavor.

How we let this new world evolve, and the controlling public policy that we establish, can substantially affect the result. We believe that the cornerstone of information policy should be primary and increasing reliance on the private sector and the information marketplace rather than on the public sector for providing information products and services. Not only will such reliance provide the most effective response to society's diverse and expanding information needs, but it will also bring about that result in a way that will safeguard and enhance essential freedoms.

It is not accidental that the Constitution, by specifically allowing "copyrights" whereby authors receive exclusive rights in their works, encourages reliance on private rather than government efforts in creating and providing information products and services. Nor is it accidental that the first among the amendments contained in the Bill of Rights of the Constitution, which taken together provide the strongest protection of individual liberty in human history, stays the hand of government from "abridging the Freedom of Speech, or the Press," or, to put it in today's context, interfering with the compilation and dissemination of information by its citizens. Indeed, the First Amendment might well be called the "information" amendment.

In today's world the message of that amendment is not that government has to cease all information activities. Since the early days, and generally with useful purpose, the government has been involved with the creation and distribution of information critical to our national interest, and will continue to be. Census data and reports of Congressional proceedings are but two examples.

On the other hand, in the information world of tomorrow with its radically new methods of meeting society's information needs — methods undreamed of 200 years ago — the underlying premise of the First Amendment surely means that government should not play the dominant role in providing information nor a domineering role in the control of information developed by others. The two roles are interrelated. The right of the people will be best secured and the essential character of our free society more rigorously preserved and enhanced if the technology driven revolution is allowed to develop with these principles kept constantly in mind.

Private sector information capability is expanding exponentially. The competitive drive to anticipate and fulfill user needs is intensifying. These needs are best integrated in the give and take of the marketplace.

Public policy in this regard has two elements. One is the regulatory framework that government seeks to impose on the information/communications industry. That framework should be minimal and receding as information sources and methods of distribution proliferate. The other element in information policy is government involvement in the information marketplace which results in "competition" with the private sector. Such competition exists where government creates or provides information products or services, particularly enhanced products or services, comparable to those which have been or could be readily created or provided by private sector sources. This competition should be minimized; that is, where the private sector is meeting or can meet an information need, the government should not compete.

Important at any time, a recognition of this basic principle is particularly vital today as our society moves through the early stages of the information revolution. The final pattern of the informational relationship between public and private sector will be set not by a single sweeping edict, but rather by the day-to-day application of this basic principle to innumerable and perhaps seemingly inconsequential situations where competition has arisen or may arise. There should be an ongoing presumption in favor of the private sector, a presumption which may be rebuttable in a limited number of situations.

If this principle is consistently followed in the innumerable and yet unforeseeable situations that are sure to arise, our information system will be strengthened decision by decision, and society's enjoyment of freedom will be steadily enlarged. The peoples' need for information will be more effectively met.

The specific elements of a guiding policy relating to public sector or private sector information competition should be as follows:

1. Government should not develop and disseminate new information products or services that compete with those already available from or planned by, or which could be provided by, private sector sources. Nor should new formats for existing government information products or services be developed by government when private sector sources are equipped to offer or are already offering such formats. Government information products or services currently being offered should be carefully reviewed periodically to make sure that continued production and dissemination serve a need that still exists and that is not being met or cannot be readily met by private sector sources and are done in a manner that diminishes potential "competition" with the private sector.

2. Where there is a genuine, demonstrable and critical need for an information product or service not currently provided (or likely to be provided) by the private sector, government should take the following steps in order of priority:

> First, encourage the private sector to meet the need;
>
> Second, provide secondary inducements for the private sector to meet the need through such mechanisms as subsidies, loans, grants, tax credits, etc.;
>
> Third, if the private sector cannot fulfill a demonstrable and significant information need, contract out to the private sector the development of the needed product or service;
>
> Fourth, when as a last resort to meet the need the government does produce such an information product or service, make it available in a way and at a price that diminishes potential "competition" with the private sector. That price should, with rare exceptions, be sufficient to recover all costs incurred in the development, production and dissemination of the particular information product.

3. All information products or services provided by government should be reviewed periodically in the light of expanding private sector capabilities with a view toward, wherever possible, encouraging the private sector to meet information needs by becoming involved in the production and distribution of such products and services.

* * *

If these policies are adopted now and carefully adhered to in the years ahead, the information society now evolving will enhance the freedom as well as contribute significantly to the economic well being of people everywhere.

This position paper reflects the efforts and concern of a large number of individuals from the membership of the Information Industry Association. Special recognition should go to William P. Giglio (McGraw-Hill), 1983 chairman of the Public Policy & Government Relations Council, Charles H. Tower (The Dun & Bradstreet Corp.), 1984-85 chairman, and Peggy Miller (Kaye, Scholer, Fierman, Hays & Handler). IIA staff support was provided by Robert S. Willard, Vice President, Government Relations.

The Information Industry Association represents nearly 400 companies involved in all aspects of the collection, storage, processing and distribution of information *content* in the commercial marketplace. The Association was established in 1968. Its offices are in Washington, D.C., three blocks from the United States Capitol.

Members

- Aaron/Smith Associates, Inc.
- ABC-Clio Information Services
- Academic Press, Inc.
- Access Innovations Inc.
- ADMAX
- Aerospace Database—AIAA
- Aerospace Online (Ziff-Davis)
- AgriData Network
- All American Cables and Radio, Inc. (ITT)
- Alpha Systems Resource
- American Banker (International Thomson)
- American Express Service Establishment Expansion
- Analysis Technology, Inc.
- Aspen Systems Corporation
- AT&T
- AT&T Bell Laboratories Library Network
- AT&T Communications
- AT&T Consumer Products
- AT&T Information Systems Division
- Auerbach Publishers Inc. (International Thomson)
- AutEx Systems (Xerox)
- Bank of America Home Banking Services
- base-line SYSTEMS Corporation
- Bell & Howell Publication Products
- BellSouth Corporation
- Berul Associates, Limited
- The Berwick Group
- Betawest Properties, Inc. (U S West)
- Bibliographic Retrieval Services
- BioSciences Information Service
- BNA Database Publishing Unit
- BNA Video Group
- BNA's Research & Special Projects Division
- R. R. Bowker Company (Xerox)
- Bowne & Company
- Brattle Research Corporation
- Broad Run Enterprises, Inc. (International Thomson)
- Broadcast Advertisers Reports, Inc.
- BUC Information Services
- The Bureau of National Affairs, Inc.
- Burrelle's Information Search Services
- Burson Marsteller New Communications
- Business International Corporation
- California Database
- Callaghan & Company (International Thomson)
- Cambridge Research Institute
- Cambridge Scientific Abstracts (Disclosure)
- Carrollton Press, Inc. (International Thomson)
- CES Publishing Corporation (International Thomson)
- Citibank Information Management
- Citibank Investor Services Technology Group
- Clark Boardman Company, Ltd. (International Thomson)
- COADE (International Thomson)
- Commodity News Services, Inc. (Knight-Ridder)
- Compucon, Inc. (A.C. Nielsen)
- COMPUSEARCH Market & Social Research Limited
- Comtex Scientific Corporation
- Conference Board Data Base
- Congressional Information Service, Inc. (Elsevier)
- Cordatum Inc.
- Creative Strategies International (Business International)
- Credit Bureau (Equifax)
- Cuadra Associates, Inc.
- Cushman & Wakefield, Inc.
- D&B Computing Services
- Dain Bosworth Technology Group
- DAMAR
- DATA BASE USER SERVICE
- Data Cable Corporation
- Data Courier Inc

D.A.T.A. Inc.
Data-Ease, Inc.
DATALINE, Ltda.
Data Resources, Inc. (McGraw-Hill)
Database Asia
Database Services, Inc.
Dataline Incorporated
DATAPRESS Inc.
Datapro Research Corp. (McGraw-Hill)
DATAQUEST Incorporated (A.C. Nielsen)
Datasolve Database Information Service
Datatek Corporation
Datext, Inc.
Derwent, Inc. (International Thomson)
Dialcom International, Inc. (ITT)
DIALOG Information Services, Inc.
Digital Equipment Corporation Videotex Marketing Group
Disclosure
F. W. Dodge Division (McGraw-Hill)
Donnelley Marketing Information Services (D&B)
Reuben H. Donnelley (D&B)
Dow Jones & Company, Inc.
Dowden Communications
Dun & Bradstreet Canada Limited
The Dun & Bradstreet Corporation
Dun & Bradstreet Credit Services
Dun & Bradstreet International
Dun & Bradstreet Operations
Dun's Marketing Services
DunsNet
Eastman Publishing (International Thomson)
The Economist Publications and Data Services, USA
EIC/Intelligence Inc.
Electronic Publishing Co., Inc.
Electronistore Services Incorporated (R.R. Donnelley)
Elsevier Science Publishing Co., Inc.
Elsevier U.S. Holdings, Inc.
ENVIRONET® (COMSAT)
Equatorial Communication Services
Equifax Center for Information Research
Equifax Inc.
Ergosyst Associates, Inc.
Excerpta Medica (Elsevier)
Executive Telecom (BNA)
Exporter's Encyclopaedia (D&B)
Faxon Network Services
FIND/SVP
FINIS (Bank Marketing Association)
FIRST International Corporation
Firstel Information Systems, Inc. (U S West)
Fisher-Stevens, Inc. (BNA)
FOCUS Research Systems, Inc. (D&B)
France Telecom, Inc.
Frost & Sullivan, Inc.
Gale Research Company
Gannett New Media Services, Inc.
Gartner Group
Garvin Information Services
Goulston & Storrs/Route 128
Greenwood Press (Elsevier)
Gregg Corporation
Grolier Electronic Publishing, Inc.
Group L Corporation
GTE Telenet Communications Network Applications
GTE Telenet National Accounts
G. K. Hall & Co. (ITT)
Hallmark Cards Video Communications
Harris Electronic News
Harris Information Services
HASTINGS TECHNICAL EQUITIES
Healthcare Information Services Division, McGraw-Hill Information Systems Company
Hollander Publishing Company, Inc.
Houghton Mifflin Company, Reference Division
HUTTONLINE
ICOMX
ICS Computing (Limited) Ireland
IDA Ireland
IMS International Database Services
INACOM International (International Thomson)
Info Globe (International Thomson)
Informatics Information Systems & Services
Information Access Company (Ziff-Davis)
Information America
Information Consultants Inc. (BNA)
INFORMATION/DOCUMENTATION, Inc.
Information Market Indicators, Inc.
Information Marketing International (Ziff-Davis)
Information on Demand, Inc. (Pergamon)
Information Researchers, Inc.
The Information Store Inc.
INFOSOURCE, Inc.
INMAGIC INC (Warner-Eddison)
Institute for Scientific Information
Institutional Networks (Instinet)
Interactive Data Corporation
Interactive Images
Interline Communication Services, Inc. (U S West)

International Business Machines Corporation
International Data Corporation
International Development Center
International MarketNet
International Standard Information Systems
International Thomson Business Press, Inc.
International Thomson Holdings
International Thomson Information Inc.
International Thomson Professional Publishing
Intertec Publishing Corp. (ITT)
ISS Company of Okasa, Japan
ITT Bobbs-Merrill Educational Publishing
ITT Communications Services, Inc.
ITT Publishing Inc.
ITT World Communications Inc.
ITT World Directories
KEYCOM Electronic Publishing
KLUWER
Kraus Thomson Organisation Limited
Kyodo News International, Inc.
Lambert Publications, Inc.
Landmark Publishing (U S West)
LaserData, Inc.
Learned Information, Inc.
Legi-Slate, Inc. (Washington Post)
Arthur D. Little Information Industry Services
LINC Resources, Inc.
LINK Resources Corporation (International Data Corp.)
LOGIN
Longman Inc.
Lotus Development Corporation
Rufus S. Lusk & Son, Inc.
Mainstay Software Corporation
Marcus Information Systems, Incorporated
Maritime Data Network, Ltd.
Market Information, Inc. (United Telecom)
Marquis Who's Who Inc. (ITT)
McGraw-Hill Book Company
McGraw-Hill Broadcasting Company, Inc.
McGraw-Hill, Inc.
McGraw-Hill Information Systems Company
McGraw-Hill International Book Company
McGraw-Hill Publications Company
MCTel
Mead Data Central
Media General, Inc.
Menlo Corporation
Meredith Corporation
Metrics Research Corporation
The Michie Company (ITT)
MIW Associates
Money Market Directories
Moody's Investors Service (D&B)
Moore Data Management Services
Mountain Bell Holdings (U S West)
MPSI Systems Inc.
MTech Information Center Services
National Decision Systems
National Demographics & Lifestyles
National Planning Data Corporation
NDX Corporation
NERAC
NETECH Communications (U S West)
Nevada Bell
The New York Times Syndicated Sales
NewsBank, Inc.
Newsday Videotex Services (Times Mirror)
NewsNet, Inc.
Newsweek (Washington Post)
Nielsen Business Services
Northwestern Bell (U S West)
NYNEX Corporation
Occupational Health Services, Inc.
Office Automation Systems and Technology Magazine
Official Airline Guides (D&B)
Ogilvy & Mather Videotex Development Group
Ohio Real Estate Services, Inc.
One Point, Incorporated
The Oryx Press
Oxbridge Communications, Inc.
Pacific Bell
Pacific Northwest Bell (U S West)
Pacific Telesis Corporation
Pacific Telesis International
Participation Systems Inc.
PacTel Communications Systems
PacTel Directory
PacTel Finance
PacTel Mobile Access
PacTel Properties
PacTel Publishing
PacTel Services
J. C. Penney Videotex Services
Pergamon InfoLine, Inc.
Petroleum Information Corporation (A.C. Nielsen)
Pharmaco-Medical Documentation, Inc.
Philips Subsystems and Peripheral, Inc.
Phillips Publishing Publications Group
PLASPEC

Port Import/Export Reporting Service (Knight-Ridder)
Post-Newsweek Stations (Washington Post)
Predicasts (ITG)
Prentice-Hall, Inc., Information Services Division
Prospector Research Services
PsycINFO
Public Relations Aids/MediaBase
Questel, Inc.
Quotron Systems, Inc.
R&R Newkirk (ITT)
Rand McNally Infomap, Inc.
RCA Home Information Systems
RCA's Automated Business Communications Products Group
Readex Microprint Corporation (NewsBank)
Redgate Publishing Company (International Thomson)
REDI/Multi-List
Reed Telepublishing, N.A.
Reference Technology Inc.
Research One
Research Publications (International Thomson)
RFP, Inc.
Rockefeller Center Telecommunications Corporation
Howard W. Sams & Co., Inc. (ITT)
Karl Schmidt Associates
SDC Information Services
I.P. Sharp Associates, Inc.
Shepard's (McGraw-Hill)
Charles E. Simon and Company
SNET Directory Operations
Sogitec Incorporated
Solution Associates, Inc.
SONECOR Network Services (SNET)
SONECOR Systems (SNET)
Source Telecomputing Corporation
Southern New England Telephone (SNET)
SP/MI, Inc. (United Telecom)
Standard & Poor's Corporation (McGraw-Hill)
Standard Systems Corporation
States News Service
Stewart Data Services
Storage Research Pty, Ltd.
Sweet's Division, McGraw-Hill Information Systems Company
Tax Management, Incorporated (BNA)
Technical Insights, Inc.
TELASSIST
Telerate Systems Incorporated
Texas Instruments Incorporated
Thomas Register of American Manufacturers
Thomson & Thomson (International Thomson)
Tijl Datapress b.v.
Time Magazine Group
Times Mirror Videotex Services, Inc.
Times On-Line Services, Inc. (New York Times)
TMS Inc.
TrendLab
TRINET
TRINTEX—A CBS/IBM/Sears Co.
TRW Information Services Division
Walter Ulrich Consulting
UNINET, Inc.
UNIPUB (Xerox)
University Microfilms International (Xerox)
United Press International
United Telecommunications Diversified Businesses
UNINET, Inc. (United Telecom)
U.S. Transmission Systems, Inc. (ITT)
U S West Direct (U S West)
U S West Financial Services (U S West)
U S WEST, INC.
USACO Corporation
Van Nostrand Reinhold Company, Inc. (International Thomson)
Veronis, Suhler & Associates Inc.
Videodial, Inc.
VideoLog Communications
Viewdata Corporation of America, Inc. (Knight-Ridder)
Vitro Corp. Publications & Information Systems
VNU AMVEST, Incorporated
VU/TEXT Information Services, Inc. (Knight-Ridder)
Warner-Eddison Associates, Inc.
Warren, Gorham & Lamont, Inc. (International Thomson)
The Washington Post Company
West Indies Advertising Company, Inc.
Western Union FYI News Service
WESTLAW
John Wiley & Sons, Inc.
H. Donald Wilson Inc.
Xerox Information Resources Group
PLUS 81 PROFESSIONAL MEMBERS

RESPONSES OF PAUL G. ZURKOWSKI TO WRITTEN QUESTIONS OF SENATOR MATHIAS

Information Industry Association
316 Pennsylvania Avenue, S.E., Suite 400
Washington, D.C. 20003
202/544-1969
Cable: INFORMASSN WASHINGTON

September 10, 1985

The Honorable Charles Mathias
Chairman
Subcommittee on Patents, Copyrights, and Trademarks
SD-137
Washington, D.C. 20510

Dear Mr. Chairman:

The Information Industry Association (IIA) appreciates the opportunity to amplify its views on the automation efforts of the Patent and Trademark Office (PTO). Our answers to the questions on our testimony on S. 866 follow.

1. Can I conclude from your statement that if the Patent and Trademark Office automates its public records you believe that public use and access to these records should no longer be unlimited? How will the users of the system react to this change? Are their complaints justified? Does this set a precedent for "user fees" for access to government information?

Online databases take government records management to a new, unprecedented level by offering qualitatively new features and capabilities. That being the case, use at no charge should no longer be unlimited. Unless the Congress is prepared to spend essentially unlimited sums for public access, usage will have to be metered somehow. Charging a price would be the efficient way. Charging a price also invites and stimulates competition and innovation in information. Alternative ways are less efficient and less appealing: waiting lines or time restrictions at terminals. In the latter case, usage would indeed no longer be unlimited.

We perceive that user complaints may have substance insofar as they relate to data quality. Users may rightfully expect the PTO to take responsibility for maintaining the same data quality level as in the paper files. To the extent that the complaints relate to the planned charging of fees, however, they have little merit. Clearly, the complaints have issued primarily from Washington-based full-time trademark lawyers and practicioners who charge fees for their services. This group should have no special claim on the resources of the Treasury.

PTO user fees would not be precedential, although they would set an important example. There is ample precedent and practice for fees for government dissemination of information in the public sales program of the Government Printing Office, for example. The Congressional Record and the Federal Register are sold for a substantial price. Notably, the PTO's own Official Gazette carries a substantial subscription price as well. We regard OMB Circular A-25 and the draft information policy circular, detailed in our testimony and the attachments to it, as pertinent. Nor would the PTO be the first agency to charge for online searches: the Natural Agricultural Library implemented such a policy last year. We have enclosed the statement of that policy.

2. Are the Patent and Trademark Office's data base exchange agreements consistent with your association's policies and beliefs?

We cannot answer this question with a simple yes or no. We have identified at least four principle conditions to be satisfied for cost-sharing, barter, or exchange agreements to be permissible. After explaining each point, we will apply it the the PTO's circumstances.

1) The agency must have clear statutory authority to conduct off-budget procurements in this manner.

Unquestionably, 35 U.S.C. Section 6(a) grants the PTO such authority. The IIA believes that the provision in H.R. 2434 to suspend this authority constitutes an overreaction to whatever difficulties have arisen in the PTO's recent exchange agreements. There is, for example, no reason to force the agency to discontinue its longstanding and mutually advantageous exchange agreement with Derwent to obtain foreign patent data.

2) The agency must treat the cost-sharing or exchange agreement as a supplement to offset some measure of its costs rather than as a substitute for a standard competitive cash procurement for services to support governmental functions. The fundamental fiscal policy of Congress set in Title 31, that the government runs by appropriated funds, is sound and should not be avoided. Under some conditions, exchange agreements may be useful in the capitalization of a government system, but not to the extent of becoming an alternative for appropriated funds.

IIA believes that the PTO has relied on barter for trademark automation to an undesirable extent. The PTO should be prepared to pay for executive staff support. We note that the patent automation, supported by a reliable amount of appropriated funds, appears to be proceeding more successfully.

3) The contract must include safeguards so that a vendor or vendors will not be responsible for extra deliverables added after a contract has been concluded and is in effect — unless the whole contract is opened up to renegotiation. Otherwise, the contractor would be held responsible for an original misestimation by the government of the requirements or costs involved. If there is a cost overrun, it should be addressed in an open fashion.

We believe that, although the PTO necessarily enjoys a favorable bargaining position relative to any one vendor, it has not taken unfair advantage of its position. The agency has shown itself willing to deal with multiple vendors. In the case of Thomson & Thomson, the entire agreement has been properly renegotiated when necessary.

4) The agency must not overlook or ignore sound, well-established open government information policies set forth in the Freedom of Information Act and the public domain policy of the Copyright Act in an attempt to create a franchise or position of value for its vendor(s) to enjoy. Any departure from these policies should be narrow and explicitly authorized by statutory amendment. Generally speaking, a budgetary saving to a government agency does not constitute a sufficient reason to justify deleterious effects to long established policies of access to government information.

IIA objects to the PTO's price levels for public sale of its raw data tapes, which are far above marginal reproduction cost. That cost is all that the FOIA permits an agency to charge for provision of its records. All the contents of the data tapes, on paper, are clearly "agency records," yet the PTO relies on a distinction merely of storage medium, rather than content, for a different price. By seeking to maintain a price far above cost, the PTO inescapably puts itself in the position of asserting a property interest in the content of the tapes — yet this is what the public domain policy of the Copyright Act (17 U.S.C. Section 105) stands against.

The relevance to the exchange agreement is this: when the PTO provides the data tapes in exchange for something of value from the vendor, the value to the vendor is the sale price. That is, the vendor has avoided having to buy the tapes at the standard price. The artifically high price inflates the value to the vendor. Reducing the price to where it should be will reduce the value of the agreement to the vendor, so that the PTO may have to make up the difference with cash. By protecting its own monetary interest, however, the PTO is retarding the growth of the value-added market. At present, there are five vendors who buy the tapes. If the price were lower, there would be more buyers and hence a wider variety of services to meet the needs of more users. That is the "invisible" loss due to the excessive tape prices. We have attached our response to the PTO's proposed patent data dissemination guidelines, which contains a full discussion of this and other vital points.

To summarize, the PTO has and should retain the necessary authority for exchange agreements and has dealt acceptably with vendors. On the other hand, the agency has relied excessively on barter and has artificially created value for some vendors by pushing tape prices to unjustifiable levels. Consequently, the IIA finds the PTO's overall current policies only partially satisfactory.

3. In your testimony you indicated that one reason for fee imposition was to keep the PTO from competing with commercial search firms that provide similar services to the public for a fee. How should the PTO take into consideration the fees charged by private search firms? Should the PTO charge fees for automated searches that do not underbid the private companies?

Where the PTO is providing public access to its own system, there is only one logical basis for setting fees: the agency's actual underlying costs. Since the agency is performing a mission for the Government and is not operating for profit, the market value is irrelevant. The same logic of OMB circular A-25 applies here as with magnetic data tapes: pricing should be cost-based rather than value-based. Moreover, all attributable costs must be factored in so that the agency does not unwittingly engage in predatory, anticompetitive conduct. Since private firms are better organized than government agencies for commercial enterprises, including data dissemination, we are confident that cost-based pricing will leave the private market essentially undisturbed.

The fees charged by private search firms are relevant when there is a question of the offering of their services at the PTO's premises. Either the vendor's standard commercial rates will have to be passed along to users, or the government will have to compensate the vendor up front, or some combination of both. Vendors must recover their heavy initial investments in constructing the databases by asserting and protecting their proprietary rights in the databases, even where there are no rights in the data themselves. Naturally, no vendor would voluntarily put itself in the position of losing a substantial part of its customer base to low-priced or "free" services at the PTO. As we said before, a limited amount of no-fee tax-supported services suffices to discharge the Office's public notice responsibilities while not excessively depleting the Treasury or undercutting private industry.

* * * * *

I trust that these answers are fully responsive to your questions. If you want any further information, please contact Ken Allen or David Peyton on my staff.

Yours truly,

Paul G. Zurkowski
President

PGZ:dpd
Enclosures (2)

Rules and Regulations

Federal Register
Vol. 49, No. 179
Thursday, September 13, 1984

This section of the FEDERAL REGISTER contains regulatory documents having general applicability and legal effect, most of which are keyed to and codified in the Code of Federal Regulations, which is published under 50 titles pursuant to 44 U.S.C. 1510.
The Code of Federal Regulations is sold by the Superintendent of Documents. Prices of new books are listed in the first FEDERAL REGISTER issue of each week.

DEPARTMENT OF AGRICULTURE

Office of the Secretary

7 CFR Part 1

Official Records; Fee Schedule; National Agricultural Library

AGENCY: Office of the Secretary, USDA.

ACTION: Final rule.

SUMMARY: The Fee Schedule is amended by increasing fees for photographic reproductions and on-line searching for National Agricultural Library records. These changes are necessary to offset base costs and increased production costs.

EFFECTIVE DATE: October 15, 1984.

FOR FURTHER INFORMATION CONTACT: Joseph H. Howard, Director, National Agricultural Library, United States Department of Agriculture, Room 200, NAL, Beltsville, Maryland 20705 (301) 344-4248.

SUPPLEMENTARY INFORMATION: On May 7, 1984, the Department of Agriculture published a notice of proposed rulemaking in the Federal Register (49 FR 19307). Interested parties were invited to participate in this rulemaking by submitting written comments on the proposal to the Department. On June 8, 1984, the proposed rule comment period expired. No comments were received. Therefore, this final rule is the same as that published in the notice.

This final rule has been issued in conformance with Executive Order 12291 and Departmental Regulation 1512-1 and been determined not to be a "major rule." In addition, it will not have a significant economic impact on a substantial number of small entities as defined by the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) because the fees provided for in this rule are not new but merely reflect a minimal increase in the costs currently borne by those persons requesting Government photographic reproductions and on-line searching. John E. Carson, Director, Office of Finance and Management made these determinations.

List of Subjects in 7 CFR Part 1

Freedom of information.

PART 1—ADMINISTRATIVE REGULATIONS

Accordingly, Appendix A of Subpart A, of Part 1, title 7, Code of Federal Regulations is amended as follows:

Appendix A—Fee Schedule

1. The authority citation for Appendix A, Subpart A of Part 1 is revised to read as follows:

(5 U.S.C. 301, 552; 7 U.S.C. 2244; 31 U.S.C. 9701; and 7 CFR 2.75(a)(6)(xiii))

2. The heading and the provisions of paragraph a of section 10 are revised to read as follows:

Sec. 10. *Photographic reproduction prices.*

*   *   *   *   *

a. *National Agricultural Library.* The following prices are applicable to National Agricultural Library (NAL) items only: Reproduction of electrostatic, microfilm, and microfiche copy—$5.00 for the first 10 pages or fraction thereof, and $3.00 for each additional 10 pages or fraction thereof. Duplication of NAL-owned microfilm—$10.00 per reel. Duplication of NAL-owned microfiche—$5.00 for the first fiche, and $0.50 for each additional fiche. Magnetic tape containing bibliographic files—$45.00 per reel. As part of its reference service NAL may, in accordance with its policies, provide staff assistance and the use of manual or computerized reference tools to answer inquiries. All inquiries requiring more than a threshold level of one hour of staff time or $25 in computer costs shall be billed for that part of the staff time and computer-related costs which exceed the threshold levels in accordance with section 8, paragraphs c through e of this fee schedule. The contract rate charged by the commercial source to the National Agricultural Library for computer services is available at the National Agricultural Library, Room 200, United States Department of Agriculture, Beltsville, Maryland 20705 (301-344-4248).

*   *   *   *   *

Signed at Washington, D.C., on September 6, 1984.

Larry Wilson,

Acting Director, Office of Finance and Management.

[FR Doc. 84-24086 Filed 9-12-84; 8:45 am]

BILLING CODE 3410-96-M

Agricultural Marketing Service

7 CFR Part 993

Dried Prunes Produced in California; Changes in Pack Specifications

AGENCY: Agricultural Marketing Service, USDA.

ACTION: Final rule.

SUMMARY: This final rule prescribes an additional nomenclature size designation—"Small", "Breakfast", "Petite", or "Economy"—for consumer packages of dried prunes under the marketing order for California dried prunes. Packages of prunes labeled with these size designations shall include prunes falling within a range of 85 to 100 prunes, inclusive, per pound. The current nomenclature size designations are "Extra Large," "Large", and "Medium". This additional nomenclature size designation is intended to give handlers more flexibility in merchandising small prunes.

EFFECTIVE DATE: September 13, 1984.

FOR FURTHER INFORMATION CONTACT: Frank M. Grasberger, Acting Chief, Specialty Crops Branch, Fruit and Vegetable Division, AMS, U.S. Department of Agriculture, Washington, D.C. 20250 (202) 447-5053.

SUPPLEMENTARY INFORMATION: This final rule has been reviewed under USDA guidelines implementing Executive Order 12291 and Secretary's Memorandum No. 1512-1 and has been classified a "non-major" rule under criteria contained therein.

William T. Manley, Deputy Administrator, Agricultural Marketing Service, has certified that this action will not have a significant economic impact on a substantial number of small entities.

Notice of this action was published in the August 14, 1984, issue of the Federal Register (49 FR 32368) and interested persons were afforded an opportunity to submit written comments until August…

Information Industry Association
316 Pennsylvania Avenue, S.E., Suite 400
Washington, D.C. 20003
202/544-1969
Cable: INFORMASSN WASHINGTON

August 23, 1985

Dr. J. Howard Bryant
Administrator for Automation
U.S. Patent and Trademark Office
Washington, D.C. 20231

Dear Dr. Bryant:

This letter constitutes the response of the Information Industry Association (IIA) to the June 14, 1984 Federal Register notice entitled "Patent and Trademark Office: Electronic Patent-Data Dissemination Guidelines." I apologize for the long delay in providing these comments. However, as you may be aware, we were waiting for the receipt of certain information requested from the Patent and Trademark Office (PTO) pursuant to the Freedom of Information Act.

Before providing specific comments on the proposed dissemination guidelines, I would like to state for the record that the Information Industry Association fully supports the automation of the patent and trademark operations. We believe the application of information technology is a logical, and essential, step towards maintaining the integrity of the United States patent system. We also support your efforts to develop a clearly enunciated policy regarding the dissemination of the information in the Automated Patent System (APS). Early and open discussion of this issue should result in a dissemination policy that enhances the efficiency and effectiveness of the patent and trademark system.

The Information Industry Association believes the cornerstone of Federal information policy should be primary and increasing reliance on the private sector and the marketplace, rather than on the expenditure of public funds for providing information products and services. This position is best described in the IIA Policy Statement (copy enclosed) entitled "Meeting Information Needs in the New Information Age:"

> "Private sector information capability is expanding exponentially. The competitive drive to anticipate and fulfill user needs is intensifying. These needs are best integrated in the give and take of the marketplace.
>
> "Public policy in this regard has two elements. One is the regulatory framework that government seeks to impose on the information/communications industry. That framework should be minimal and receding as information sources and methods of distribution proliferate. The other element in information policy is government involvement in the information marketplace which results in 'competition' with the private sector. Such competition exists where government creates or provides information products or services, particularly enhanced products or services, comparable to those which have been or could be readily created or provided by private sector sources. This competition should be minimized; that is, where the private sector is meeting or can meet an information need, the government should not compete."

As you will note, the Policy Statement includes a set of specific steps that agencies can take to implement this policy. We urge the PTO to incorporate these steps, which are consistent with the draft information policy circular prepared by the Office of Management and Budget, in its dissemination guidelines.

The value of relying upon the private sector to disseminate public information can be illustrated by drawing on two examples from the PTO's past. In the early 1970s, dissemination of U.S. patents on microfilm was transferred from the government to a commercial vendor. The result has been a higher quality product being disseminated to many more customers. More recently, in 1980, the government decided to sell its magnetic tapes of patent information to commercial vendors. Using this information, five commercial services now provide tens of thousands of users with online access to patent-related databases. These examples readily demonstrate that reliance upon the private sector can enhance the dissemination of public information at minimum cost to the government.

Dissemination Goals and Objectives

We agree with the goal of the PTO to achieve effective, widespread dissemination of patent information to all segments of the U.S. public. We also support the provision of electronic database search and retrieval services in public search facilities located in the PTO. We do not support the provision of these services "to other locations which may be established by the government." This phrase is unnecessarily vague as to the criteria to be used to establish which locations would be chosen and fails to specify who in government — the PTO or Congress — would make such a decision. We note that the number of Patent Depository Libraries (PDLs), which are established by the PTO, has increased from 21 to 58 in just eight years. The IIA is concerned that the lack of criteria for establishing "other locations" may lead to a similar expansion. More importantly, we believe that reliance upon the private sector would make the establishment of additional locations unnecessary.

We also object to the statement that PTO will make the search and retrieval services available to Patent Depository Libraries. It should be clearly noted that the PDLs have been established administratively by the PTO and are not made mandatory by existing statute. Moreover, the statute referred to in the guidelines, 35 U.S.C. 13, states: "The Commissioner may supply printed copies (emphasis added) of specifications and drawings of patents to public libraries in the United States which shall maintain such copies for the use of the public..." This statutory language clearly does not contemplate the provision of electronic search and retrieval services to the PDLs. Indeed, a recent opinion of the General Counsel of the Government Printing Office concluded that under existing law (Title 44), the GPO could not provide databases to the larger universe of government depository libraries established under Title 44. The IIA believes that providing electronic information services to locations outside the public search facilities should only occur where clearly required by statute and after a careful consideration of the costs and benefits associated with providing such services.

We support the statement that the PTO will encourage the private sector to offer commercial patent search and retrieval services and "will seek to avoid competition with private sector firms in providing such services to the public."

Direct Dissemination to the Public

We support the guideline that electronic access to the APS provided in the public search facilities will be made available at user fees based on the marginal cost of providing the access. We also support the policy that commercial databases available in the public search rooms will be made available at commercial rates. However, we reiterate our objection to the provision of online services through the PDLs.

We believe that providing the PDLs with electronic search and retrieval services lacks statutory authority, duplicates services already available from the private sector, and is potentially more expensive than similar commercial services. We cite the existing online PTO patent information service, CASSIS, in support of our position. The information available through CASSIS is also available from the private sector and, in fact, was offered by commercial vendors before PTO expended tax dollars to develop a similar service. According to the information provided by the PTO in response to an FOIA request, at least $467,000 was spent in FY 1984 alone to develop and operate CASSIS. Our analysis of these costs, which we believe are significantly understated, indicates that the telecommunications costs associated with providing CASSIS access to the PDLs are twice those that would be incurred in a commercial system. More importantly, the PDLs could have acquired the same information from the private sector for $166,000, rather than the $467,000 it actually cost. The existence of CASSIS has substantially distorted the market inasmuch as PTO, and not the PDLs using the system, pay the cost of these services. Should the PTO proceed with its intention to provide electronic services to the PDLs, such services should be made available at full cost, and not the marginal cost, as proposed by the guidelines. This approach would provide a more accurate measure of the value of alternative information sources.

Distribution to Commercial Database Vendors

We support the PTO's statement that electronic patent data will be made available to commercial database vendors. We also support the PTO's intention not to distribute, directly to the public, data received from other patent offices or to act as a service agent or representative. We encourage the PTO to broaden this policy to include other national, international and intergovernmental organizations as well. The PTO's current exchange agreement with the International Patent Documentation Center (INPADOC) states that the PTO may become INPADOC's agent in the future. The PTO need not and should not become a distribution agent for INPADOC or any other organization.

The guidelines note that PTO may act as an agent or representative if there is a special need that cannot otherwise be met. We urge that the guidelines be revised to include criteria for identifying such "special needs" and that, in meeting these needs, the PTO comply with the steps outlined in the IIA Policy Statement regarding reliance on the private sector.

We do not support the position that PTO will make electronic data available to commercial vendors at marginal cost "plus a fair market value as set by the PTO." Assuming that the PTO is in a position to determine the "fair market value" of such information, we do not believe that it has the statutory authority to do so. Moreover, since commercial vendors must pass these costs on to their users, this approach would skew the market in favor of PTO-provided services and, ultimately, reduce the dissemination of patent and trademark information to the public.

By virtue of being an agency with a unique mission, the PTO cannot help being in the position of a monopolist — literally, a single seller — of the raw data. The PTO should not take advantage of that monopoly position to extract profits from the private sector. Given the product differentiation in the patent information area, the burden of the high tape price is inevitably passed on, in large measure, to end users. Moreover, the high price inhibits growth in the value-added market. Having five outside vendors is a great improvement over none, but does not represent the ultimate stage of market development. The IIA's most basic theme is that only a plurality of diverse information sources can meet the needs of various users. Tape prices set at reproduction costs would be conducive to market entry by new firms and an even greater flourishing of value-added services than we have at present. By clinging to a policy which serves the immediate monetary and budgetary interest of the agency itself, the PTO is retarding information market developments which would 'promote science and the useful arts', to use the constitutional terms.

The policy of charging market value also places the PTO at odds with the FOIA and the Copyright Act. The data to be made available are clearly "agency records," and the PTO should not rely on a mere distinction of storage medium — paper vs tape — to assert a property interest in the contents. Setting and sustaining a market value price schedule inescapably puts the agency in the position of being a proprietor. This is clearly inconsistent with the the Copyright Act, which precludes any copyright interest in works of the U.S. Government. For a more extended treatment of these points, please see our testimony (enclosed) on the proposed FOIA amendments in the 98th Congress.

Exchange of International Data

We support such exchanges and the incorporation of international data in the APS. However, we again do not support the provision of this data to the PDLs by the PTO. Non-U.S. patent information is already available on several commercial databases and a PTO initiative in this arena would be directly competitive with those vendors.

As noted earlier, the IIA supports the PTO's automation effort. These comments are directed towards improving the PTO dissemination policy in a way that will benefit all segments of U.S. society. I would be glad to discuss these comments in further detail.

Yours truly,

Kenneth B. Allen

Kenneth B. Allen
Vice President, Government Relations

KBA:dpd
Enclosures (2) (omitted)

Senator **Mathias**. Thank you, gentlemen.

I think you agree that there has been some rather unusual testimony presented here today. In light of what we have heard, rather than address questions to you at this time, we will review the record first. It may be necessary to recall the witnesses today, to reassess some of the testimony that has been given or, alternatively, to send you some questions in writing to supplement the record. I think we will proceed that way rather than question you now.

Thank you very much for being here, and thank you for your testimony.

The committee will stand in recess subject to the call of the Chair.

[Whereupon, at 11:35 a.m, the subcommittee was adjourned.]

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